

ECONOMICS IN ACTION • MAR. 1954

It's no secret that most economic indicators have been pointing downward for the last six months and that economists think this trend will continue for at least another six months before leveling off. What is not so well-known is that some indicators have actually gone up:

Our population, currently estimated at over 161.5 million, keeps growing at a record pace. There were almost 4 million babies born last year--an all-time high--and there is no sign of any slackening off. And that means a continuously expanding market for consumer goods.

Farm prices reversed a seven-month downward trend in December and by mid-January were up 4% from November lows. Indications are that the price nosedive is just about over. Although the farm situation is still serious, particularly in the Southwest, farm equipment companies are calling back workers to meet an expected 26% increase in farm buying.

The stock market has for the most part recovered from its recent doldrums and is showing more life than many Wall Streeters had thought possible. Hopes for an early end to dividend taxation may partly explain this, but it also reflects long-range optimism in our economic health.

This is what Administration economists mean when they describe the economy as "basically sound" and the present economic readjustment as "healthy."

The short-run outlook is not nearly so cheerful, however, and is causing some concern among Congressional and Administration circles:

Unemployment, which is currently hovering around

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the 3.3 million mark, has increased by about 2 million in the last four months. Administration experts are pinning their hopes on the usual spring pickup to substantially reduce this figure.

Some economists, pointing to the unusually heavy layoffs in non-seasonal industries such as steel, automobiles and television, are less optimistic.

Industrial Production has been falling for the last six months and is now about 10% below last July's record high. Although manufacturers have sharply reduced their purchases which may in part explain the drop in production, they have been unable so far to put a serious dent in accumulated stocks of unsold merchandise.

Demand for business loans keeps shrinking despite credit-easing measures by the Treasury and the Federal Reserve. The second half of 1953 showed the smallest cumulative gain in the total of such loans since 1947, and indications are there has been a further decline in the first five weeks of 1954.

Most economists expect this downtrend to continue for another six months, but are hopeful that we shall be able to snap out of it by early fall. By 1955, our economy should once again be breaking new production and employment records.

The big debate in Congress right now centers around the issue of how best to steer the economy clear of the reefs of recession during the current squall.

The Administration is putting its major emphasis on providing business with the stimulants needed for expansion. While cutting Government expenditures by almost \$5.5 billion, it will encourage industry to expand by faster tax write-offs on new investments,

(Cont'd on p. 63)

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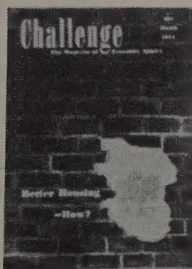
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a personal note

LAST MONTH'S Personal Note took up the relative inadequacy of efforts to explain the role of businessmen in the American economic system. This month I should like to extend these remarks to a broader examination of the reasons why the general public is so poorly informed about economic matters—even though a great many sincere and serious-minded men from both business and academic life are making a tremendous effort to eliminate economic illiteracy.

Actually there are many reasons. But the big problem in exchanging ideas is to find the right words which will most effectively convey the intended meaning to those whose comprehension is most desired. This is not easy to do. We all have a tendency to express our ideas in a manner to which our own training and background is most responsive.

Therefore, when we consider specifically the manner in which popular economic education is being conducted today, we find that educators from academic circles and public relations experts from business circles—both of these groups—suffer from a type of inbred myopia when it comes to viewing economic problems as others might see them. The result is that what the academician has to say is understood, supported or refuted by other academicians, and what the businessman has to say is understood, supported or refuted by other businessmen.

THUS, ECONOMISTS will review the myriad statistics of the past year and conclude that we never had it so good as a nation, although each one of us would rather measure 1953 according to how we managed to fare as individuals. Then, having invoked the Gross National Product and the accrued value of personal savings (both liquid and otherwise), plus several other indicators to support their conclusions about last year, the economists predict that during this year there will be an “appreciable” and “necessary” downturn—a fact easily appreciated by tens of thousands already unemployed by the time the prediction was issued—and not so readily appreciated by those still working overtime. As for the necessity of the downturn, very few are willing to concede the point without questioning its desirability—even though it really happens to be necessary for the sake of the economy's future stability. Obviously, the economists and their academic associates do not talk the language of the people.

In the meantime, businessmen and industrialists point with pride to the constant rise in our standard of living from generation to genera-

tion, and they invoke the continued investment in business expansion as a testimonial to the faith which makes our economy so dynamic. All this is true, but it assumes that individuals measure the condition of their economic health over the span of decades as corporations do rather than from year to year, and even day to day, as human beings do. Such assumptions credit the public with a vast appreciation of the economic facts of life. Since it is the lack of this very appreciation which moves businessmen to press for popular education in economics, obviously businessmen are having as much trouble as academicians in conveying economics to the public.

And it is not so much that these disseminators of ideas from the academic and business world do not have something worth-while to say. They do. The shame of it is that their good ideas rarely get circulation and appreciation outside their own circles.

IT IS UNDERSTANDABLE that every individual should draw something from his own professional experience when dealing with even mundane things. Thus, Joe DiMaggio, in recalling his feelings when he first met Marilyn Monroe, could say with marvelous aptness: "I didn't think I could get to first base." Having expressed himself in the vernacular of a baseball-conscious public, DiMag could be certain his audience understood exactly what he was talking about.

But if the Yankee Clipper had been a stockbroker, he might have described his feelings thusly: "I felt my capital was inadequate to meet the possible margin call on such a highly speculative, even though promising, commodity." Now, this phraseology would be understood on Wall Street and its environs; but a few blocks uptown it would be considered gibberish. As propagandists go, DiMag, the ballplayer, hit a homer. The broker's stock, on the other hand, went down to the point-of-no-return.

Of course, it is highly unlikely that outside the Banker's Club a broker would express himself in such a manner—if he were talking about his personal affairs. But if he were talking about his business, would he be sufficiently facile to use the vernacular then? I doubt it, though it seems that brokers, businessmen and industrialists are bent upon learning how—even more so than their academic brothers.

For my own part, I hope that both academicians and businessmen learn how to hit homers with the public. The sooner the better. Gentlemen, you are at bat. You will never find a better time than now. The spring training season is here.—H. B.

A new kind of enterprise, the venture capital company, guides the fortunes of infant industries and encourages investment by "betting" its own money on risk situations

RISK, INCORPORATED

THE SPECTACLE of a handful of investment bankers, lawyers, engineers and economists coolly deciding how to put several hundred thousand dollars into a "risk situation" would make even the most hardened stock-market plunger grow a little light-headed. Yet, managing a "venture capital company"—risking money in a cautious way—is the business of these men. In looking for long shots, they are only conforming to that ideal of the conservative banking fraternity, the "reasonably prudent man."

Since 1945, about a dozen venture capital companies have been formed with the specific purpose of seeking out small, growing businesses and making profitable investments in them. Venture capital companies not only survey carefully any risk situation that may come to their attention, but usually obtain a voice in the affairs of a business they back with cash. By thus mixing money and management, they expect to minimize risk systematically. They have, moreover, a social function. By helping

to maintain a steady flow of money for capital investment, they increase real productive capacity and create growth—the vital strength of an economy of free enterprise.

EVERYTHING from frozen orange juice to natural gas has caught the fancy of venture capital companies. They have gone into such remote and rarefied projects as ion-exchange systems, radar equipment, rocket motors, the making of wall-board from volcanic ash, automation systems and into such mundane enterprises as a Kansas City bakery chain. Some are currently involved in bringing television to isolated mountain communities, while others are busy in oil and uranium exploration. They have made money and lost it.

One company put 1.25 million dollars into a chemical firm in 1946 and four years later cashed in part of its investment for 6.5 million dollars. The firm had done so well it was no longer considered a risk situation, and the venture company decided to employ its money in

more "interesting" projects, though it retained an equity worth more than 3.5 million dollars. But the same company once invested 340 thousand dollars in a film-making outfit, betting on a rival to Eastman-Kodak, and lost it to the last penny.

A second company with a record of successes, and a large backlog of still-maturing investments in the more abstruse realms of applied physics and chemistry, had two unhappy experiences in the grocery business. It lost 230 thousand dollars in a South Sea island tunafish-catching venture because the tuna were so well fed through nature's bounty that they refused to rise to the bait. Another twenty-five thousand dollars trickled away when the public palate failed to respond to frozen apple juice.

ALL investment capital is venture capital in some sense. Any business loan involves a degree of risk; gilt-edge bonds have been known to tarnish; and even the best blue-chip stock, representing an equity in an established industry, may fade. What sets venture capital companies apart from other investors is that they prefer the *unsure* thing. They often channel their money into new businesses with new products, processes or services to sell. They may back a small but established company that wants to enter a new field, or assist a busi-

ness that seems stagnant but is basically in a good competitive position.

A few scattered examples of venture capital companies could be found before World War II. They were of minor significance, however, and their potentialities went unrealized. By the end of the war all kinds of technological advances were waiting to be exploited, and the American economy was ready to be stimulated by pent-up energies in every field. Though the companies now in existence probably could not muster more than fifty million dollars of investment capital among them, their appearance is one of the most heartening omens for our economy. So far, not one of them has more than twenty million dollars in capital (and, of course, less than that available at any given moment). But while they can swing no great weight compared with the giants of American industry, they are setting a bold pattern for future development. Because venture capital companies are profit-seeking, they are essentially different from the local or regional development organizations that try to attract new industry to their particular localities and will finance new operations.

For some years, economists and capitalists (by no means mutually exclusive categories) have been uneasily expressing fears for the future of the American economy.

They fear that not enough private money has been flowing into capital investment. Government, indeed, has been lavished enough with tax monies, and has greatly subsidized the expansion of productive capacity. But often this money has gone into large existing industries, and economists have wondered whether we were not over-concentrating productive capacity. For, development of the economy must ultimately be a matter of private initiative.

IN THE 1920s people invested about 50 percent of their savings in business, compared to only 12 percent since 1945. Money has flowed more and more into savings banks, life insurance companies, investment trusts, etc., which ordinarily are legally (and morally) prevented from investing in risk enterprises.

The tax structure has also discouraged risk investment. Until last January the earnings of corporations were taxed at a maximum of 70 percent (including taxes on "excess" profits). The maximum is now 52 percent. And high personal income taxes have in recent years drained off surplus funds that used to finance new enterprise. Wealthy men have sought the safe but unproductive refuge of tax-free municipal bonds for their capital. As D. K. David, Dean of the Harvard Graduate School of Business Administration, has said: "Between

the idle pools of investable funds and the needs of new and growing business enterprise stand Governmentally erected barriers."

This state of affairs has justified the emergence of venture capital companies. It does not mean, however, that they can ever carry the whole, or even most of the burden of financing new ventures. R. D. Ward, a partner in the venture capital company founded by John Hay Whitney, recently observed that most venture money will probably continue to come from orthodox sources: individuals, established corporations and Government (for such things as atomic energy and rocket development).

THERE ARE two kinds of venture capital companies: private companies, usually partnerships; and corporations, either publicly owned or with a restricted sale of stock.

J. H. Whitney & Co., founded in February 1946, pioneered in the first category. After making certain conservative investments and establishing a philanthropic foundation, John Hay Whitney set up a venture company with ten million dollars in working capital. In this way he attempted to replenish by risk investments those sources from which the great fortune he inherited had sprung. Expressing his hope that the trend towards whittling-down and even confiscating inherited wealth would cease

if that wealth is well used, Mr. Whitney remarked: "I believe that the entrepreneur, no matter what the source of his money, can be a valuable member of society."

Whitney & Co. expects to have doubled its original capital by 1956. In eight years, the staff has considered more than 4,300 proposals—including that of a man who had in mind a drill that would bore a thousand feet into the earth. His scheme had a certain classic simplicity about it: He wanted to wake the dead.

Up to the present, Whitney & Co. has made investments in forty-six projects. Of these, eighteen have been or seem profitable; fourteen are uncertain; fourteen have been or seem likely to be unprofitable, and nine are total losses. The firm feels that it can handle anything up to 500 thousand dollars alone. Beyond that it would seek other capital sources. It gives advice and continued assistance to a business it invests in, but does not ask for voting control. And it has learned to prefer the commercial development of a product to its technical development. Minute Maid frozen orange juice and the Spencer Chemical Co. have been two money-makers for Whitney & Co. One of its newer projects—a major investment—is building the first oil refinery in Puerto Rico in combination with two oil companies.

Payson & Trask (organized in

June, 1947) falls into the first category of venture companies. It has about twelve investments at the moment, including a small Ohio chemical firm and one venture in Canada, the distribution of bottled propane gas. Henry Sears & Co. (September, 1949) is in various manufacturing enterprises. Wm. A. M. Burden & Co. (June, 1949) has been concerned primarily with mining and lately with oil exploration, and has had a secondary interest in the aircraft industry. Fox, Wells & Co. (February, 1951) has interests in oil properties, automation processes, and especially in electronics research.

ACCORDING to a managing partner of one venture company, three million dollars is "the absolute minimum" required to go into the field. Large sums, he maintains, are necessary to move from one enterprise to another and to develop sufficient "leverage," for one has to be able to throw ready funds into the breach if a project gets sick. Probably the minimum "turn-around" time for a venture company—the time needed to get into and out of a project—is three years. However, in supporting growing businesses, venture companies find themselves competing with industrial giants who spend millions for research. A small company is in danger of being beaten to the market with a new product or of being squeezed

out. At the same time, if a small company's new idea takes hold, its stock can rise greatly in value. It is this chance of capital gains that makes the small outfit especially attractive to a venture company.

UNIQUE among venture companies—at least those formed so far—is the American Research and Development Corporation of Boston, the only publicly owned corporation in the field. It went into business in 1946 with capital of 3.75 million dollars, and now has three hundred thousand shares of common stock outstanding and more than 1,200 stockholders. More than any other venture company, it has risked its money—close to five million dollars a year ago—on highly technical products and processes. It has made major investments in more than twenty firms, the total being about equally divided between loans and equity financing—investments in

various companies represented by common stock. A. R. & D. president, General Georges F. Doriot, once rebuked stockholders who complained of the lack of dividends by saying: "The Corporation does not invest in the ordinary sense. It creates. It risks. Profits take more time . . . but the potential for ultimate profits is much greater." Just last month, A. R. & D. paid its first dividend, a modest twenty-five cents a share.

Recent proposals for liberalizing the income tax laws could help unlock dammed-up pools of capital. Venture capital companies, representing organized ways of directing risk money, are acquiring technical knowledge as well as insight into the workings of the economy. Certainly there is no surplus of venture companies. More of them could channel newly released funds into long-term economic growth. ■

French Alcohol for German Rubber?

French alcohol may end up in German automobile tires instead of on French dinner tables if a deal between a Ruhr chemical concern and the French Government comes off. Huels Chemical Works, a former member of the giant I. G. Farben combine, has indicated that it is willing to buy 13 million gallons of alcohol currently held as surplus by the French Government. This scheme could prove a boon to both countries. On the one hand it would help the French Government to get rid of some of the more than 158 million gallons of industrial alcohol, which was converted from wine bought as a price-propping measure. The Germans, on the other hand, could save millions of dollars worth of foreign exchange spent annually on rubber imports. Huels believes it could boost production to thirty thousand tons of synthetic rubber on the basis of this deal.

A dean among America's business executives reviews some inspiring personal experiences and concludes that progress is something which is always just beginning

Thoughts on Tomorrow

by Frank M. Tait



LET US TURN away for a few moments from our worries about everyday problems, from our customary dash after taxis, after dollars. Let us stop to think of the challenge of things to come, for us as individuals, as a nation and as the human race. Especially, let us not have the scientist, the educator, the businessman and the others get so involved with taxis, dollars and worries that they fail to see the forest because of the trees.

This is a plea to America to keep its eyes on the far horizon of scien-

tific, social and spiritual advancement to attain new heights of human welfare. It is a plea from a businessman who has been fortunate to have a long and happy life, who devoutly believes that all the tomorrows can and must be of even greater value to the human race than the todays and yesterdays.

In the early years of my life, such wonders as the telephone, phonograph, incandescent lamp, linotype, automobile, movies and the airplane came into popular use. Since then have come such fascinating developments as home radio, television, refrigerants, "wonder drugs," jet planes and the use of atomic energy.

So I have seen the tremendous strides of the age, with the resulting beneficial gains in the comforts and conveniences of life as we have

Frank M. Tait, still active at the age of 81, is considered the dean of America's utility executives. He is chairman of the boards of both the Dayton Power and Light Co. and the Dayton Pump and Manufacturing Co. He is also a director of the United States Pipe and Foundry Co. in Birmingham, Ala.

it today, the best on earth, the best in mankind's history.

BUT WE have only started. The horizon is limitless. The developments that I have seen might have led to the belief that we have saturated our capacity to progress. On the contrary, my experience makes me believe—know—that we are only beginning. What we must not do, ever, is to slow up, hesitate, or, heaven forbid, stop! The future *is* there!

Certainly there are potentials in every field. What of civilian uses of atomic energy for power and heat? What of interurban rockets to whisk us around the country in minutes, or around the universe for that matter? What of harnessing the energy of the sun, and controlling weather? Or new building and clothing materials, new agricultural and manufacturing processes? New drugs, cures for our now incurable maladies? What of social gains that eliminate slums, decrease crime and delinquency? And, probably the hardest job, what of progress in human relations, toward fewer wars, broken homes, broken minds, broken lives?

The job is there, and I know work is being done on some of these projects, and many, many more that I do not know about. I cannot see what the future will bring. But I can see the job is there to do; that, as smug as we might be now about

our standard of living, we are on the threshold of a greater era.

Obviously, the way we are going to achieve that greater era, and the still better ones to follow, is through intelligent thinking and hard work. That is how we have reached the place we are at now.

It works. I know. Let me tell about a couple of personal examples of why I know.

BACK NEAR the start of my public utility career, we had a job to do which today seems almost unbelievable. We had to sell electricity, and it was tough. Home and industrial uses of electricity were relatively new; sometimes electricity didn't work just right; there were conversion problems and the consequent expense for a potential customer. Lots of reasons were given why people didn't want service from a central station, as it was known then.

But central station operators worked hard. And more people bought electricity. And more power stations were built. Generation and distribution methods were constantly improved. Manufacturing grew with electricity, more products were made better and cheaper, and life at home and work improved.

Now, where would you or I be this minute without electricity at the flick of a switch at home or at work?

You see the equation: the wonder and adaptability of electricity, plus human thought and work, equal progress in day-to-day living. And mankind moved on.

There is another brief personal example. In those early days of electricity, I became interested in a pump company. At that time, obtaining water with a hand pump was a laborious task. So our company combined the marvel of electricity with the job of a pump and produced the first automatic electric water system. Thus, the electric water pump joined other devices in efficient service to humanity. And mankind moved on.

BUT OF COURSE there is not always success in the inventor's, the manufacturer's, or the individual's pursuit of the solution to a problem. In fact, there are usually many more disappointments than there are joys. Curiously, I learned that truth very early in life from America's greatest and most successful inventor, Thomas A. Edison.

When I was a youngster, Mr. Edison came to my hometown of Catasauqua, Pa., to conduct experiments in the processing of iron ores for use with anthracite coal. He needed a boy to help him and I got the job, working with him to the successful conclusion of the experiment. What a man he was! Despite the disparity in our ages, his

tireless efforts almost wore me out.

Right then, and throughout our lifelong friendship, I learned that only with hard work and progressive thinking can results be obtained—regardless of disappointments. Edison stories about this philosophy are numerous. There is the one, for instance, in which Edison said that he had made twenty thousand experiments on a problem but that none of them had worked. Nevertheless, he wasn't disappointed because, as he said, "There's nothing wasted. I have discovered twenty thousand things that won't work."

Yes, there are disappointments. But there are gratifying results, too. Edison made more than a thousand creations, many of which we use and enjoy every day, such as the incandescent lamp, phonograph, movies, to name a few.

Naturally, results count. Disappointments must merely be considered as delays along the way.

SO, WE HUMANS have come a long way, and are going a long way farther through thought and work. It seems to me that the basic question then becomes—why? Why do we work? Why do we seek new and better materials and methods? Why do we look toward the future, with additional progress as the goal?

For personal gain? Some people do, and in many case they are the

unhappy ones, the shallow, distrustful, embittered ones. Of course there must be material gain in everyone's life. But it cannot be the end result of effort. There is, there *must* be something more, and that is the satisfaction of contributing something useful, the sense of "belonging" through carrying our share of humanity's load.

Thus, we must serve, for our own progress and for the progress of our fellow man.

I know a man, successful in his vocational field, who has devoted countless hours to the work of his lodge and its contributions to the community. This man has served. He did not and will not get a penny for it; his work even is virtually anonymous. But his community—humanity, if you please—has gained.

I know another man, general manager of one of America's industrial giants, whose religious way of life, and his active work at it in city, state and nation, is of untold inspiration to others.

Can that man measure his personal satisfaction in money or anything else? He probably doesn't even think of it, but he radiates a quiet contentment that is most expressive of personal peace.

In my own case, I have found

that my richest possession is the thought that I have contributed, in my own way, to the well-being of the people of my community through my lifetime industrial efforts. Many of us have that feeling. From my career that has spanned more than a half-century, I know that inner satisfaction is, by far, most important in life.

In Pennsylvania's Lehigh County, where I grew up, there are a lot of good Welsh people. One of the stories there was of a mighty Welsh choir; they are great singers, you know. The choir was comprised of one thousand tenors, one thousand sopranos, one thousand altos—and one man as the bass. And when those three thousand and one persons started to sing, the conductor had to stop the choir and caution the lone bass singer: "Not so loud, bass!" What a contribution he made!

We all cannot make that much of a contribution. But each of us can help in the challenge of things to come, and never before in history have there been so many opportunities, so many possibilities. Through our cumulative service, humanity will continue to benefit, and, with God's help, there will be a greater era tomorrow—and all the next tomorrows. ■

Beard Tax

Henry VIII imposed a tax on beards, graduated according to the wearer's social position. His daughter, Elizabeth I, put one on every beard of more than two-weeks growth.

—*Australian Taxpayers' Bulletin*

The slum problem can be realistically met only if realty people themselves exercise an imaginative program of private initiative



Better Housing—How?

IT IS DIFFICULT to generate interest in a story when there is no real villain in the piece. Thus, with some trepidation, this article will attempt to consider the problems of providing low-cost housing—without recourse to a villain upon whom all blame is heaped.

The tenants who live in substandard and slum residences point the accusing finger toward cheap and grasping landlords; city officials decry their own unworkable ordinances; while landlords complain about the seemingly insatiable appetites of tenants and the crippling shackles of controls and regulations which make impossible a reasonably profitable operation of

their residential property holdings.

A more accurate picture, however, can be drawn of what actually is the case if one considers that our chief concern is with the bad condition into which so many dwelling units have sunk—and that the cause of this condition is to be found in the practices of past generations rather than of certain individuals or groups.

It would be a spiteful misstatement to contend that a civilization which can produce and consume a vast number of peripheral luxuries cannot find within its own resources a similar ingenuity for the production and consumption of such a prime necessity as moderately

priced housing. Therefore, who or what is to blame?

If there must be a fault, it probably falls only partly on the shoulders of those who are actually engaged in the realty business. A case can be made to prove that their attitudes and objectives have not contributed to the type of efficiency which is so well identified with the activities of automobile manufacturers, for example. On the other hand, it would seem that a part of the blame also can be placed with the willingness of public opinion (the habits and mores of a civilization) to see vast economic expansion in all directions while the challenge of enterprising adequate low-income housing is sidetracked. And what is to be said for the wisdom of tens of thousands of families who feel themselves neglected and left behind to live in ramshackled dwellings, while their automobiles crowd the front door and television aerials sway from chimneys fifty years old?

WHEN the need for a new approach to the problems of low-cost housing is viewed in the perspective of history, it becomes difficult to blame any single group with great assurance.

Quick solutions to the low-cost housing problem are unrealistic. It would probably take as much out of the national budget as our present defense efforts do to provide in

adequate numbers sufficient dwelling units to satisfy the needs of those whose housing facilities are now substandard. This would lead to national bankruptcy, and even the most ardent supporters of government subsidy have not dared to suggest such a course.

What is needed is to bring the construction and management of low-cost housing into the mainstream of the American economic system. This will begin to do the job that needs doing. In the end we may have a housing situation which reflects the true state of the economy just as the number of automobiles, refrigerators and television sets annually built and sold reflects the state of the economy.

QUITE obviously, though they could not always help it, residential realty men have not been good businessmen. Making money out of a business, for a time, does not mean that the business has been run well. Too many landlords have conducted their operations according to a self-consuming sense of profit: make as much as the traffic permits. The concept of a long-term corporate enterprise which calls for a constant maintenance and perpetuation of property has not been a significant part of the thinking of landlords. Reinvestment, which is a basic principle in the upkeep of a business, was too often considered an enemy to the best

interests of the landlord. In instances where repairs could be costly, it was time to sell the property. The new owner who worked under the same business psychology followed a similar course. Consequently, the value of land and houses drops; the real estate taxes paid to cities (their chief source of revenue) dwindle; the cost of municipal maintenance skyrockets; and business income in the vicinity suffers. The hopelessness which comes with the "slum spirit" is marked by the apathy of tenants, the obstinacy of landlords and the laxity of city officials.

The growth of slums and of outcries against this condition have put landlords on the defensive. For many years now they have been pointing to the multiplicity of their problems, but they have been slow to build up a bold defense line in their own behalf. By the time World War II came, it was impossible to do anything. Materials and labor become unavailable; costs ballooned.

After the war, the need for low-income housing became even more acute. Strict controls enacted during the war were kept in force, and even though residential housing had one hundred percent occupancy, reinvestment in low-cost housing fell into the deep freeze of rent controls. The inflationary spiral carried returns from investments in other businesses far above those

from property holdings. In many areas rent controls made it impossible to improve property, with the result that entire communities deteriorated even faster.

GOVERNMENT-AIDED and sponsored housing began in its larger aspects as a war measure. Some 180 thousand family units were sponsored by 1949. Senator Taft's Housing Act of 1949 further stimulated Government activity in this direction, and by the end of 1953 some 250 thousand low-cost units were built—with another 75 thousand in prospect. Thus, there were 430 thousand completed units, which hardly sufficed to fulfill the needs of fifteen million families living in substandard buildings.

In the meantime, private industry's building program across the nation turned out home and apartment dwellings in remarkable numbers, but this did not do very much, directly, for the third of our nation who could not afford such medium- or high-cost housing. Of course, with the middle and upper income groups moving into the new post-war houses, certainly many residential units were released to provide better housing for the bottom income group.

Unfortunately, such a transition is a slow one and not readily appreciated. The dramatic situation of so large a proportion of our ever-increasing population continuing to

live in substandard dwellings is highly charged emotionally. The continued existence of slum areas blights large areas of our metropolises; they are a ready-made social, economic and political issue.

Influential real estate groups were quick to set up a national lobby which objected to public housing as something contrary to our free enterprise system. At variance with this lobby, social groups continued to expose the mushrooming slum conditions. Municipal and local business groups were caught in the middle, the first facing political and social pressure and the second facing loss of income through the deterioration of whole neighborhoods. With the entire housing picture fraught with controversy and looked upon as an extension of the wartime emergency, the lead in combating the problem was defaulted into the hands of federal, state and municipal governments.

Of course, the big problem was money—huge sums of money, hundreds of millions of dollars to rehabilitate entire areas. This much money realty groups could not supply. But isolated experiments in several cities proved that where landlords could borrow enough from private or public sources, rehabilitation was not only feasible but economically sound—and eventually even profitable.

THE BALTIMORE experiment was one of the first. By threats of stringent law enforcement and fines, promises of financial help and assistance, by cajolery and even a call to conscience landlords were moved to take the lead. Today, one of the bigger holders of some five hundred units frankly admits that the only thing wrong with the idea was that it should have been done years ago, when both the amount of work and the costs involved would have been far less. He is get-

Good Housing is Good Economics

"Good housing and the development of adequate community facilities are essential to the welfare of our people and to the stability and growth of our economy."

"Specifically, the Federal Housing Administration should now be authorized to insure private credit used for rehabilitation of obsolete neighborhoods. It should also be given authority, on an experimental basis, to insure mortgages with small down payments and with the balance payable over a long period, to finance inexpensive homes for lower income families, particularly families displaced by rehabilitation and slum-clearance programs."

*—From the President's Budget Message to Congress
January 21, 1954*

ting a larger return on his money, even though he must pay back, with interest, a substantial loan. But thus far only one hundred of the twenty-one hundred blighted blocks have been rehabilitated. City officials concede that the job cannot be done in our lifetime.

But what has been accomplished? Just one important thing: everybody concerned — landlords, city officials and tenants—have learned that you cannot create housing without somebody paying for it; that you get what you pay for; and that good housing, whether it is low-cost, medium-cost or high-cost, is a problem of management, production and consumption, which requires the same strict consideration of economics as the production and consumption of a low, medium or high-priced automobile.

EVEN such an influential realty group as the National Association of Home Builders is willing to admit that "of some 160 million people in the U. S., over 50 million live in slum squalor." The NAHB does not like this situation and wants to do something about it. Spurred by various governmental housing plans, real estate holders and builders have organized themselves to plead their case. While fighting subsidized housing under the slogan that America's free enterprise system can outlaw slums, they are willing to admit that they will need

financial resources beyond their own holdings to do the job.

THIS declaration is not as lukewarm as it sounds. It represents a healthier attitude than those still held by several other sick industries on the American scene which mouth free enterprise slogans but continue to offer little more than to stay in business—provided they can be perpetually subsidized with the taxpayer's money.

Realty organizations across the country at last are beginning to take the lead in encouraging rehabilitation projects. They are enlisting city and state aid and trying to sell landlords on the idea that modernization is profitable. They are lobbying in Congress for larger tax write-offs and easier loans. Their surveys claim that about 90 percent of slums can be decently restored and need not be rebuilt from the ground up. It is encouraging to note that experiments already completed have shown that rehabilitation, once undertaken, begins to pay more than minimum dividends, because the contagion of profit spreads to landlord, tenant, local business and the municipality. It has been proved, for example, that the income of families removed from slum squalor rises, thus making the individuals of such families sounder citizens and larger consumers. Municipalities can quickly appreciate the elimination of "slum psychology."

From 1946 to 1952 some 70 thousand apartments were built for low-income families in New York City—for which some 500 thousand applications were received. Inadequate as the six-year effort seems, realty payments to the city in 1952 were 126 thousand dollars higher in 1952 than taxes assessed on the same property before the housing projects were erected.

DESPITE the great attention paid to the problem of slums, the rate of deterioration has not been slowed. Nor has the campaign of realty organizations to enlist landlord support on behalf of private initiative been effective thus far. As late as January 1954, Alexander Summer, past president of the National Association of Real Estate Boards and currently a member of President Eisenhower's Advisory Committee on Housing, declared that the committee was shocked by report after report from all sections of the country of the "understanding between unscrupulous owners of slum property and city officials responsible for enforcement of the housing laws."

Evidently there is still a long way to go before everyone concerned with low-cost housing learns that here is a form of enterprise which with imaginative handling and investment has a highly im-

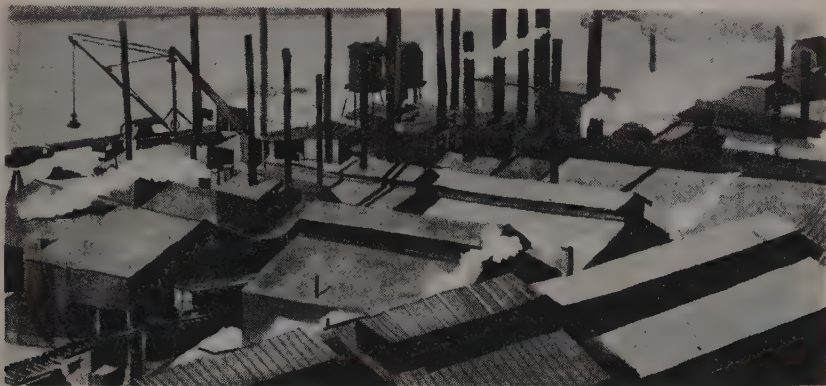
portant place in the business and community life of a municipality.

NEW CONCEPTS must be formulated if the need for more housing is to be fulfilled. This much is proved: that the concerted efforts of realtors, builders, local businessmen, tenants and the various levels of government can make progress in the right direction, profitable to all. Real estate people must assume leadership and not be content with the dog-in-the-manger posture in which they have for so long remained. There is no room to doubt that once the sound economics of free enterprise are forcefully applied, the challenge can and will be met. The approximately 500 hundred million dollars of tax money which goes into subsidizing low-income housing today is producing so few units that the accomplishments scarcely affect the problem. What private realty groups are slowly coming around to is a willingness to undertake the job. If properly done, this is a surer method.

Everybody agrees that low-income housing is needed. Here is a market for a product which any businessman worth his salt would like to face. With everyone very conscious of the problems that must be overcome, realty men have their work cut out for them. ■



Nationalization vs. denationalization—what's behind the post-war course of the iron and steel industry in England?



See-Saw in Britain

by Ernest Atkinson

“STEEL? I make it. I don’t argue about it,” replied a stoker eight years ago when I had asked him what he thought of the talk of nationalizing his industry. It was a typical worker’s reaction at the time. Likely it would still be the same today.

The British iron and steel industry was nationalized in 1951 and remained so until last spring when the Conservative party mustered enough votes to return it to private ownership. Today many Laborites maintain they will convert steel back to public ownership if they win the next General Election, which probably will take place before the fall of 1956. Yet, most in-

dividual spokesmen for British unions are reaffirming their intention simply to secure the best possible conditions for their members—no matter who owns or operates the industry.

Britain has had almost uninterrupted full employment since the end of the war, and the iron and steel industry has been the mainstay of it all. It has not greatly mattered to the furnace-tender or freight clerk whether his weekly wage of \$15.75 in 1945, and \$27.80 in 1953, came to him from a public or private corporation. And to the

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customer and consumer nothing seemed much different under the two years of state ownership.

Beneath the surface of the public mind, however, much emotion has been generated during the British iron and steel industry's post-war course. Throughout this period changes have been taking place in the financial structure of this key industry which have significance for every capitalistic country today.

The real head of political steam for nationalization of Britain's heavy industries began to build up in the hard times of the early 1930s. Wages were then around \$8.40 a week and unemployment at its worst reached 40 to 50 percent of employables. The Labor party, which had long held public ownership of basic industries as one of its aims, redoubled its arguments. Resolutions calling for nationalization began to arise particularly from iron and steel unions.

THE IRON and steel industry was in distress from antiquated facilities and a lack of investment funds as well as low earnings. Business leaders felt the industry could not be allowed to flounder along *unaided*, as *they* put it. Labor leaders felt it could not be allowed to go along *uncontrolled*, as *they* put it. Both groups believed this most essential industry would have to be "arranged" or "planned" in the

foreseeable future. But they differed strongly over whether it would be better off under a private or public enterprise.

The outcome, as so often in Britain's political life, was neither one thing nor the other. In exchange for the protection or subsidy of an import tariff, the industry undertook to put its own house in order. It set up, in 1934, the British Iron and Steel Federation under an independent chairman nominated by the Government. Partly with the help of the Bank of England, then a private institution, many firms re-tooled and modernized themselves. This proved especially important when World War II broke out.

EVER SINCE 1934, the home prices of steel have been set by agreement with the government; and since 1939 maximum prices have been limited by law. All imports of ore pass through one joint company which makes sure it is "fairly" priced and "equitably" allocated to individual firms.

After winning the election of 1945, the Labor party built a legislative program around what was officially described as "a large measure of public ownership" of basic industries. Eventually, gas, electricity, coal, motor transport and civil aviation, as well as steel, were nationalized.

The great Parliamentary debate

on steel got underway in April, 1946. On the Labor side it was said, for example by Herbert Morrison, that "the subject is in essence not a party political matter, but a business matter, regarding the best course to take in the interest of the nation."

From the Conservative side that contention was challenged. It was pointed out that Winston Churchill's wartime Coalition Government had asked the industry to prepare a development plan for the next five or seven years ahead. This the steel people had done, envisaging the expenditure of some 168 million pounds (\$470,000,000). I remember Sir Andrew Duncan during one night of high discussion telling the House of Commons that the industry could find half of that money from its own resources already at hand, and surely the City of London could find the annual balance. He said it was not in the least necessary to nationalize iron and steel in order to achieve the highest efficiency, and the best combined brains and technical advice were available for carrying out the plan that had already been put before the government. It was not before a year of bitter argument that the Labor party's Iron and Steel Act was passed.

Under this Act a huge new public holding agency, the Iron and Steel Corporation of Great Britain, took over some three hundred com-

panies in early 1951. These companies had been organized in eighty major groups, of which fourteen produced four-fifths of Britain's steel. As compensation for the now nationalized industry, the owners received Government-guaranteed bonds.

For their part the leaders of the industry generally never entertained the notion that nationalization might be permanent. They accepted the law, of course, and did nothing to obstruct the change-over. But they tried to keep their own Federation intact while hoping for a change of government.

DURING the life of the public corporation, production rose to a new high. Profits, too, bulked bigger than ever, increasing by 50 percent. Nevertheless, when Sir Winston Churchill's Government got back in power, it set its sights on denationalization of the industry. The debate began anew and ended only with the passing of a new Act in May of last year, setting off "Operation Unscramble."

"Operation Unscramble" consists, in effect, of selling new shares of stock in the various steel companies to private buyers. The Treasury has continued to assume the liability of the bonds received by the original shareholders upon nationalization. Since the Labor Government has been reluctant to make any organizational changes

which might affect the orderly production of steel, Britain's great steel companies—such as Stewarts and Lloyds, the United Steel Company, the Steel Company of Wales—had remained as separate and recognizable. Thus, just as there was not necessarily any alteration in the management of the companies when they were nationalized, so there is not necessarily any change as they are returned to private hands once again. But the whole process of unscrambling promises to alter considerably the base of ownership of the industry.

The Conservative Government has declared that public supervision of the industry is necessary, at least in the fields of prices, materials and development. An Iron and Steel Board, having statutory powers, is charged with this supervision. However, its powers are not so formal and comprehensive as those it held under the Labor Government. Its effectiveness will depend on the persuasion, rather than the compulsion, it may exercise in getting the industry to shape its development projects in line with the public interest.

THE LABOR PARTY has said that the Iron and Steel Board is a sham, intended to trick the country into believing that there will be efficient control. The Government argues that the iron and steel companies must have their independent initia-

tive and financial responsibility so as to ensure that they will have the strongest incentive to produce efficiently. These words go to the heart of the Conservative policy on the steel industry.

In the process of re-sale, a quiet but possibly far-reaching shift in type of ownership has been going on.

The Conservative Government has set up an agency to deliver the industry back to private ownership at a fair price to the State. Before the first large disposal operation, two smaller companies were sold to large companies, not by the direct offer of shares to the public, and at prices not much different from those at which they were nationalized.

The major companies, however, could only be disposed of by the sale of stock in them on the market. The first operation was big: fourteen million shares of common stock in the United Steel Companies Limited—a group which is the largest producer of steel in Great Britain—were offered at twenty-five shillings (\$3.50) each, which was 25 percent above par value. The current dividend rate is a high 9 percent, and during the ten-day trading period applications for over forty million shares were received. Actually, finance houses, insurance and life assurance companies and so forth had in effect underwritten the whole issue, hav-

ing guaranteed to take substantial blocks of shares.

Many former individual holders have refused to buy back shares because of fear of renationalization. All in all, a higher proportion of "institutional" purchasers have been taking up stocks than did so prior to nationalization. And they are acquiring such sizable blocks of stock that undoubtedly they will have considerable influence over operations. Judging from their activities in other fields of business endeavor, one can expect that these new owners will press for efficiency and aggressive improvement beyond anything desired by the former individual owners of the steel industry. If they do so, it will result to a large extent from the degree to which they are committed to the perpetuation of their holdings in the most dynamic business sense.

At any rate, new investment in iron and steel has not slackened since the end of the war. Plans now are to spend some 350 million pounds (about \$980 million) during the next five or six years on development. New blast furnaces, coke ovens, continuous hot strip mills and other plants will raise production to twenty million long tons of steel by 1957.

Steel, in fact, is the underpinning of the whole economy. Most of the national defense production expenditure calls forth the work of the industry. It is hard to com-

pute the exact amount contributed by steel to Britain's exports, which are so vitally necessary to her existence. But products using iron and steel accounted in 1952 for some 160 million pounds, and if vehicles are included, the total goes up to well over 1.2 billion pounds.

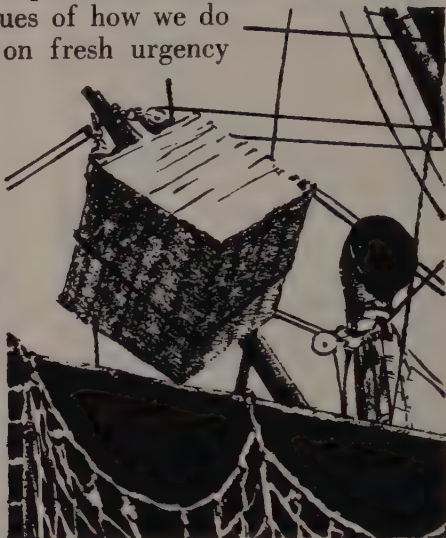
In the meantime, a good deal of re-thinking about nationalization policy is going on in the Labor party. Partly as a result of experience and partly because of current public opinion, Labor might take a long time to decide whether to return steel to public ownership, if elected again.

FROM all the disputation during these post-war years on the rights and wrongs of nationalization, no rules of universal—even of national—application can be drawn. Neither the Conservatives nor the Laborites propose to denationalize the coal industry or the railways. The Conservatives have, on the other hand, reconverted motor transport to private ownership.

As they continue to evolve industrially in their own way, the people of Britain will not treat these great matters of industrial organization on theoretical or doctrinal lines. In returning their steel industry to a new and broader type of private ownership, while retaining some governmental supervision, they may be rendering limited doctrinal conceptions obsolete. ■

With current nervousness over a possible recession and tariff legislation due for review, the issues of how we do business abroad have taken on fresh urgency

Our Stakes in World Trade



IT WAS an unusual occasion which brought the three shipping line clerks to catching a quick evening meal in the restaurant at the foot of New York's Trinity Place. It hadn't happened often lately, their conversation disclosed, that they were called upon to work overtime preparing bills of lading for their company's ships tied up at nearby North River piers.

It hadn't happened lately because for many months America's commercial export business has been slipping.

Last year showed a decline of about one-eleventh from 1952's commercial export trade with some key commodities such as cotton falling off by much more. Further

losses appear likely. Separate shipments of military aid have also dropped and will do so more precipitously this year under Congressional action. Meantime we've been buying from other countries at a *rising* rate.

With the report by the Randall Commission on Foreign Economic Policy in January, the issues of how we do business abroad have taken on fresh urgency. With nervousness over recession and rising competition for overseas sales from other countries as added stimuli, these issues are at last getting their share of national attention.

The suggestions of the Randall Commission, reflecting a cautious liberalism, have stirred up storms

of support and opposition. The ultimate force of opinion may find some outlet in legislation during the current session of Congress, most likely having to do with the Reciprocal Trade Agreements Act. Under this law the President carries out limited mutual reductions of tariffs with other countries. Having already been resuscitated eight times since passage in 1934, the Act requires new authorization after June to continue in effect.

WHAT ARE the actual exports and imports involved? What do they mean in our economy as to output and jobs? How do they fit into the world's economy and what significance do they have for peaceful relations and progress?

Fifty years ago most of our exports consisted of farm products and raw materials, mainly cotton and tobacco from the South. But today manufactured goods, primarily from the East and the Midwest, make up 70 percent. Among these the big items are machinery, steel products, cars and trucks, chemicals, textiles and farm equipment. In 1952, for example, we shipped out more than a third of our rolling mill machinery and parts, 23 percent of our tractors and 13 percent of our widely prized refrigerators.

Of course, cotton and tobacco, plus wheat, rice and other farm products count more than ever in

amount if not in proportion. In 1952 we sold other countries 36.6 percent of our cotton (\$873 million worth), plus 25 percent of tobacco, 48 percent of wheat and 58 percent of rice.

In value the top ten individual exports of 1952 ranked this way: first, industrial machinery; then, grains and preparations; automobiles, parts and accessories; steel mill products; cotton, unmanufactured; petroleum and products; electric machinery and apparatus; coal; construction and conveying machinery; industrial chemicals.

CURRENTLY, exports absorb what seems offhand to be a meagre share of our total output of goods and services—about five percent. But this includes nine percent of *movable* goods. In combined value our exports amount to somewhat more than one and one-half times that of our annual production of motor vehicles. They account for between three and four and one-half million jobs.

It is in agricultural exports that we have suffered our heaviest recent losses. In 1953 cotton shipments went down by half, tobacco and wheat by nearly a third each. Corresponding declines showed up in textiles, lesser ones in machine tools and automobiles. A few lucky commodities gained, notably radio and television sets and motor fuel.

Our biggest single customer,

Canada, has not gone back on us. But Latin America and Western Europe cut their purchases deeply last year. In contrast we upped our purchases of goods from other countries by more than a third of a billion in 1953. We continued to take in fewer goods by value than we sent out, however.

BIG IMPORTS? Coffee, subject of a recent uproar over price and supply, ranks far and away as number one. Its value nearly matches that of our chief export, industrial machinery!

The next nine incoming commodities as of 1952 were petroleum and products; crude rubber; newsprint; crude petroleum; cane sugar; copper and manufactures; wool, unmanufactured; machinery and vehicles; paper base stocks. Minerals and agricultural raw materials make up much of the remainder. Here, more than is the case with exports, the nature and importance of the goods are to be seen in their *kinds*.

The more familiar consumer items such as crockery and bicycles and *paté de foie gras* don't count much in the over-all import picture—not yet at least. Tariffs and customs regulations limit them to some (much disputed) extent.

Taken together, our imports now consist mainly of tons of unprocessed stuff pouring into an industrial maw.

The kind of imports we rely on today in the most immediate sense are the strategic minerals going into our winged and armor-plated tools of defense. We have been running out of them for some time. Among smaller quantity essentials, we now import 99 percent of our nickel, 93 percent of manganese, 98 percent of chromium, 100 percent of tin, 92 percent of asbestos, 50 percent of bismuth and so on.

WITH WHOM do we do most business? Mexico and other Latin American nations make up our most important continental group of customers for exports. Europe is next, followed by Northern North America, which is almost entirely Canada. Thus Canada, with a population smaller than that of New York State, buys more from us than all of Asia.

Latin America takes about 28 percent of our exports, Europe 27 percent, Northern North America 22 percent, Asia 17 percent. In selling to us, Latin America leads again, sending us a third of our imports. Canada rates next, topping even Europe.

The individual countries buying from us trail Canada in significant order: the United Kingdom, Mexico, Japan, Brazil, Cuba, Western Germany, Italy, France, Belgium. Sellers rank differently: Canada, Brazil, the United Kingdom, Cuba, Mexico, Colombia, British Malaya,

Indonesia, India, the Philippines. One-crop economies show prominently here.

Although the United States sells much less of its output abroad than most other important countries, we have no rival as an exporter. We lead as an importer too, though we are not much ahead of Britain.

In the months to come, should American exports continue to lose ground generally as forecasted, loss of income may seriously hurt certain manufacturing industries as well as farmers. Railroads and truckers and ocean shippers may lose business. Some unemployment may result directly.

Pressure for action to check these declines is of course being applied in Washington. Apart from this, a relatively new long-range sort of attitude toward our participation in the world's business seems to be gaining headway.

Because of what we have had to do within our own far-flung borders, we have grown up preoccupied with ourselves economically, as a nation. Our business leaders have thought relatively little about how we might take part on a bigger scale in the world economy. But now the power of some of our industries to produce has exceeded the present ability of our domestic market, vast and dynamic as it is, to consume.

Many needs and opportunities continue to exist at home, both for

more production and for more efficient and equitable meshing of production with consumption. But if what is being said more and more today is true—that in view of economic potentialities as well as political stakes we have been operating under wraps internationally—we must raise the proportion of expenditure and effort going abroad.

THE POSSIBILITIES of much greater world sales of consumer goods, as well as of machinery and other capital goods, are becoming more apparent. If bigger markets should open, based on a much higher level of family consumption around the world, they could be supplied. They could be supplied—with greater profits, higher wages and stronger job security resulting in the U. S.

It is anticipated that as local demand and consumption would rise in other countries of the world, local firms and industries would grow also. But the gap to be made up in consumption looks wide enough for lustily competitive sharing of opportunity by business firms of all nationalities.

Even if this were too likely or vague to consider, we would still be left with the problem of obtaining many scarce raw materials. For the most part we must pay for these materials with the earnings from goods we sell in turn. The more we *can* sell, the more other countries can and do buy, the easier it will be

for us to pay for the raw materials we need. "You can't do business in a poorhouse." Generally speaking, we have arrived at a stage from which, to go forward, we shall depend more and more on simultaneous economic progress throughout the world.

A world-wide consumer market must be based on purchasing power. And this purchasing power must be based on employment in productive, high-earning, well-paying big industries.

Today, world trade, in comparison to what is being produced, has not regained its pre-war level. Before any new plans for expanding mass consumption can be put to work, this must be accomplished. To help their industries expand toward an eventual high level of mass consumption, Europe, Latin America and Asia must sharply step up the amount of goods they make and sell now.

Thus, *our* hopes of stepping up our export sales hinge on the success of other countries in boosting theirs.

In order that we may begin to increase our sales abroad toward the day when they become part of our mass distribution to consumers, we must be prepared to buy from other countries at an increasing rate. They comprise our export market, and we are the biggest and richest single member of theirs. To whatever degree we are to sell to

them, we must buy from them, collectively, in order that they may earn the money to pay us.

IT'S EASY to get agreement on progress. Few argue the desirability of increasing sales abroad, or the need of balancing these sales with imports—as a nation. But, we do not trade as a nation as do many other countries, especially the collectivized Communist and other more or less dictator-ruled states. We do so as hundreds of individual industries and thousands of individual firms.

Many businessmen and labor leaders and workers who think about it seriously support free world trade as a theoretical ideal, but find themselves unable to support it in practice because they believe their immediate commitments and interests would be endangered by it. They must honor their prime responsibilities to their families, their co-workers and associates. At present nothing exists to replace, or to provide for the replacement of, the personal business or authority or income that they fear, rightly or wrongly, might be swept away from them as a result of an influx of lower-priced goods from other countries.

Of course domestic competition and other pressures harass businessmen all the time. But for some industries the prospect of freer world trade poses a real, new and

clearly outlined threat to survival, and one of "foreign" derivation at that. Many qualifications and exceptions must be applied to this simple generalization, including those springing from retrenchment during the present economic recession or adjustment, and the sharp rivalry for world trade being met from companies of resurgent nations like Germany and Japan. But it describes in essence the source of most of our national conflict over world trade.

Not much progress will be made in lowering present American import barriers (relatively modest except for a number of sensitive commodities) until ways are found to turn the blow that presumably would strike certain industries.

VERY LIKELY the domestic industries and areas that might conceivably suffer grievously from a lowering of import barriers do not equal in combined size and importance those which would benefit directly from the increase of two-way trade that would follow. But in any case they wield enough political power to continue and possibly raise the present obstacles to trade for some time to come.

Two concrete ways of meeting this situation have been suggested. Both presume the broad desirability, if not essentiality, of stimulating world trade in the national interest. The first suggestion is

that tariffs and other restrictions be lowered in careful steps, geared to gradual adjustment to the new competition by the industries concerned. The second and possibly supplementary measure would be to provide direct Governmental loans or grants to affected industries or regions until they can adapt themselves or turn to new types of work.

Any progress along these lines must of course be accompanied by action to encourage or aid many other countries in achieving free convertibility of their still weakly backed-up currencies. Also, overseas investment must increase to help make up for the discontinuance of dollar aid. Whatever is done, other countries must reciprocate in their own ways.

The problem of clearing away the barriers to free commerce after so many decades of hostility and disaster is a world problem. It ties in directly with the need of raising consumption to ease the discontent of millions of underfed and underprivileged people throughout the world whose plight constitutes the underlying threat to world peace. As such it is the concern of all humanity, part and parcel of the basic problem facing men today—how to raise up their abilities for dealing with each other harmoniously to a par with their powers for manipulating the physical components of this planet. ■

The very freedom which Karl Marx denounced has gone beyond the dreams of Marx himself in giving "to each according to his needs"

THE BATTLE FOR A FREE ECONOMY

by Alexander R. Heron

KARL MARX expressed the hope that some day society might write upon its banners the slogan "From each according to his ability, to each according to his needs."

The typical businessman, who shares the responsibility for operating the American economy, reacts emotionally to this kind of propaganda. Karl Marx was the prophet of communism. That in itself should dispose of such slogans. Anyone who peddles such stuff is subversive.

Sad to say, it does not dispose of the propaganda. There is too much truth behind the concept; so much truth that it will never die. The trouble is that we have permitted false prophets to steal the slogan. Instead of denouncing the theft, we have thought we should denounce the stolen goods. And we have lost ground in the battle for a free economy by this mistake.

(For) if Karl Marx were alive

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today, he might go out and drop dead at the shock of these two facts: First, no single group, community, or nation has made good on his slogan by following his methods. Second, the nearest approach to his slogan has been made by the nation which has most emphatically followed the opposite methods.

The point is that, as of now, no Marxian economy can give to each according to his needs, even if its rulers wanted to do so. Those rulers cannot give to each according to his needs, because they cannot get from each according to his ability. All the compulsions and pressures of the all-powerful state have

*Excerpted from "No Sale, No Job," by Alexander R. Heron.
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not drawn the production to meet the needs of all.

In contrast, the American economy has come infinitely closer to getting from each according to his ability. How has it been done? Natural resources alone do not create this production; Russia has those. There is no physical, racial, geographic or climatic explanation. The only answer must be found within the system itself.

The magnetic force which has drawn so much from each is the magnetic force of incentive operating in a field of freedom. Our advanced technology, our endless inventions; these are results, not causes. No commissar ordered Morse to invent the telegraph, or Edison the electric light. No five-year plan demanded the invention of the automobile. The Wright brothers were not under the whip of compulsion to fly a plane at Kitty Hawk.

THE VERY freedom which Karl Marx denounced has been the first essential in getting from each according to his ability. . . . The abundant production which has resulted has gone beyond the dreams of Marx himself in giving "to each according to his needs."

(This) production for use is really a symbol and tradition of the American economic system. Any system committed to such an objective must have machinery to

find out what to produce, and how much. That machinery can be the master of the economy and the people who live within it, or it can be the servant. Herein lies the final difference between the two roads to production.

This is a complex voting machine. The final power of decision is in the vote of all the customers who are the consumers. Their votes are combined and counted and passed on to the producer through the many interlocking sections of the machine. The consumer records his needs for the use of a given product or service at a polling place close to home, the retail store or service establishment. The retail grocer assembles those votes, and records his needs with the wholesale grocer. The neighborhood beauty parlor weighs the desires of its customers, and orders waving lotions and creams and nail polish from the various wholesale supply houses.

From these third-stage voting units, the wholesalers or distributors, the votes in the form of orders finally reach the producer. The voting tally is still not final. Usually 40 percent of the manufacturer's production depends on orders which he must place with other producers: orders for materials, supplies, equipment, containers and a hundred other items.

This process of deciding what shall be produced is a process of

freedom. But it not a spontaneous process. The decision of ten million consumers that they can use, that they need, that they want, a certain article must be stimulated. This stimulation is a function of selling. It requires an infinite number of devices and methods. It must convince the individual consumer that he needs and can use the article. It must inform him that the article is available, and where. It must convince him that the cost to him is in balance with the value to him.

THEORETICALLY, he should measure cost against value in many ways. If his need is absolute, a must in his mind, even a high price is reasonable. He should do some calculating on the cost and profit to those who offer him the article. He should appraise it in terms of the price of similar or substitute articles. He certainly should consider how much of his own effort he must deliver to get the equivalent purchasing power.

Practically, he does all this measuring and reasoning as part of a process that is largely emotional. The decision to buy the television set or the red convertible may be unwise—in the judgment of the neighbors. But it is the customer's free decision. It may be prompted by pride or envy or an inferiority complex. But he makes the decision that this article is what he most wants. Whether the need is nutri-

tional or emotional it still means use to him.

No dictator decides what the voter-customer shall buy; but does selling or the salesman influence the decision unduly? Does the high-pressure operator force him toward the red convertible? Of course, the answer is yes, sometimes. The final decision may be unwise, but it is still voluntary. And the greatest promise of insurance against too many unwise decisions is probably more selling effort, more urging, more competition, on behalf of other possible choices.

The judgment of the potential customer should be improved by the competitive sales pressure for different goods and services. His decision is likely to be more sound if he has been sales-pressured by many salesmen, rather than just one. His available money might pay a down payment on the convertible, the whole price of a television set, or a fur coat for his wife, or a trip to Mexico. The sales pressure for all the alternatives may come by radio or printed ads, by direct mail letters, by store window displays, or by the personal salesman. The more the pressures, the more power he has to make his own free choice.

Thus the decisions are made as to what shall be produced for sale, which means produced for use as the buyer decides on the use. But

the production does not entirely wait for this decision, any more than it waits for the dictator's master plan. The initial production must take place long before the customer's vote can be cast. The article or service must first be produced, and . . . reach the retail market and service shop, and be sold, on faith or on trial, before the first consumer-customer can cast his vote.

BUT THE people who decide to build or not to build a new plant are not in the autonomous sectors of the economy. Those who have direct control over the capital expenditure program are in the responding sectors of the economy. They make their decisions on the basis of the free decisions of the final consumers. If there is a prospect of selling a million more tele-

vision receivers next year than last year, someone in the responding sectors of the economy will make the capital expenditure to produce those million receivers. . . . Every productive agency in our economy is actually an agency for selling.

Selling is the activity of getting the consumers . . . to decide that there will be jobs. Those consumers make the decisions. They also include all the people who want the jobs. The most hopeful principle in our economic behavior is that all of us in our various capacities can do something about the number of jobs. As consumers we are doing something about it every day. As managers of business establishments, investors . . . and as workers in every enterprise, we can do something about it. We can make it easier and more pleasant for the free autonomous consumer to buy. ■



Harnessing Wind Power

Great Britain and several other European countries are carrying on serious research on the possibility of harnessing wind power.

The British have found that over a period of a year the total wind energy delivered at a given spot seldom varies more than 10 percent from year to year. Thus a wind-driven electric power station could be counted on for a predictable annual output.

To find the best spots for these power stations a wind survey of England and Ireland has been undertaken. The most favorable sites turn out to be the tops of steep, smooth hills. Winds passing over these obstacles are speeded up five miles per hour or more.

It is estimated that at any site with an average speed greater than twenty miles per hour wind could yield power as cheaply as coal. It would be used to reduce the demands made on coal-powered stations.

The most economical generating unit would be of 2,000 to 4,000 kilowatts capacity. The British are testing some smaller scale, 100-kilowatt prototypes.

—Scientific American

The humble bathroom fixture has a history anchored in antiquity, and highlighted by circumstances of great ceremony and drama

A Bathtub Chronicle

by Harold Helfer



LAST YEAR some two million bathtubs rolled off our assembly lines, and it is estimated that of the forty-eight million bathtubs in the world, more than forty-three million are in the United States.

Not only do we possess 90 percent of the tubs on this planet, but, like our motor cars, they are continually becoming more streamlined and lower in silhouette. If you have to raise yourself more than ten or eleven inches, you are getting into an outmoded bathtub.

According to certain encyclopedias and reference sources, one Adam Thompson of Cincinnati invented the bathtub and took the first bath in it on December 20, 1842—"a cold one at 8:00 a. m. and a warm one some time during the afternoon." Clergymen spoke out

against this "device of the devil"; Boston banned the invention unless the would-be bather could produce a doctor's certificate; and the state of Virginia slapped a three-hundred-dollar tax on bathtubs to discourage their use.

Actually, "Adam Thompson" never existed. The whole fantastic story was a piece of essay fiction written with tongue-in-cheek by Henry L. Mencken back in 1917. Author Mencken on various occasions has revealed the fiction of his bathtub story, but his fanciful tale still crops up as a bona fide item in books and magazines.

The clean fact of the matter is that nobody knows who invented

Harold Helfer, a free-lance writer, specializes in spotting the unusual in American habits and customs.

the bathtub. Excavations have unearthed tubs used by the Babylonian kings 5,600 years ago. At the palace of Rameses III of Egypt, some 1,200 years before the Christian era, bathtubs were a fixture of some importance in the apartments of the court women. The ancient Greeks also showed a mild inclination toward bathing. They stood in large bowls while attendants splashed water on them—in moderation, of course.

For the Hebrews, bathing became a religious rite; while in Rome, the public baths were actually the center of social life. One bath was a mile square, accommodating 3,200 bathers at a time and featuring some of the finest works of the Empire's greatest sculptors. The homes of wealthy Romans even had baths with running water.

WHEN ROME fell so did the art of bathing—at least as far as the Western world was concerned. The period which historians refer to as the Middle Ages is known to the plumbing industry as “the thousand years without a bath.” The twelfth century Crusaders, who failed to keep the Holy Land free from Moslem domination, did, however, succeed in reintroducing the bathtub to Western civilization.

But by this time bathing was too radical a notion to be universally accepted. Some of the *upper* upper-crust would occasionally soak in a

tub, but for most people there were only three occasions in a lifetime which called for something approximating a bath: at birth, marriage and upon death.

King Henry I of England gave the bathtub a boost when he founded the order of the Knights of the Bath. According to ritual, prospective Knights of the Bath had to scrub themselves prior to taking their vows. To this day there is a ceremonial bathing which is a part of the coronation proceedings for the kings of England.

IT WAS left to a notorious murder to bring the bathtub to the attention of the world. On July 13, 1793 Jean Paul Marat, the passionate publicist of the French Revolution, was stabbed to death while soaking in a bathtub, by the fanatical Charlotte Corday. With this one act, Mlle. Corday signed her own death warrant and elevated Marat to the exalted role of martyr. And, incidentally, the bath tub became famous.

By this time various types of tubs were in use. There was one shaped like a slipper, set on wheels so that it could be moved from room to room. There were also “sofa-tubs” in which one could recline while bathing; “seatubs,” fashioned in the form of rolling waves; and “Dutch-oven tubs,” among others.

It was the indefatigable Benjamin

Franklin who first brought the tub to America—a slipper-shaped one. He would sit in it for hours while catching up on his reading. For the frontiersmen of the new nation, however, a bathtub was too effete. They used a wooden washtub if they just *had to bathe*.

There are accounts that the vivacious Dolly Madison installed the first bathtub in the White House. But her presidential spouse, James, viewed it as something unseemly and ordered it out.

It wasn't until Abraham Lincoln came along that the first permanent bathtub was installed in the White House; and there was still just one tub in the whole mansion when President Cleveland took over. When Theodore Roosevelt moved in he asked for, and got, a second tub. President Taft accentuated the importance of a bathtub by ordering an oversized one which could properly hold his 300-odd-pound frame.

AFTER THE Civil War, the swankier hotels began to provide tubs as standard equipment. Still, progress was slow. It was not until plumbing and public water systems improved that the bathtub won favor. Improvements in the tub itself were

also slow. Some of the early ones were crude affairs. Until late in the nineteenth century it was quite common to hire a carpenter to build a tub and a tinsmith to line it. Some were never lined. Ouch!

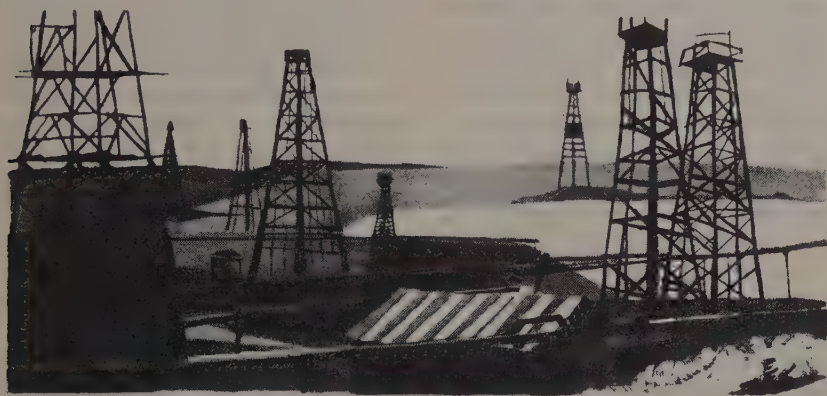
Today's tubs are finely enameled—solicitously smooth to the touch. Twentieth-century Americans have taken it for granted that a city home would certainly contain at least one bathtub. But lately the idea has grown that even this is not enough for the average home. Just a few years ago a fellow with a couple of bathtubs in his house was considered something of a plutocrat. Today, many new homes are built with two complete bathrooms, and the plumbing industry confidently predicts that the day is not far off when a bathroom and bathtub (with shower) will become a necessary adjunct to every bedroom in the home.

To keep pace with America's growing demand, some eighteen concerns are busily turning out bathtubs at ever-increasing rates. And while the bath will never again become the *pièce de résistance* of public social life as in Caesar's day, it has, without a doubt, become somewhat of a social institution with individuals. ■

For Professional Use Only

False teeth are for "professional use only" in Communist Czechoslovakia. Precious metals for dentures may be given out only to "glass-blowers, musicians who play wind instruments and others for whom the loss of front teeth is a professional calamity."

The law of "supply and demand" is a topsy-turvy principle at best in the oil industry—for today's overproduction can still lead to tomorrow's shortages



A Portrait in Oil

TROUBLE has been brewing deep below the surface in the petroleum industry. While Government agencies, such as the Office of Defense Mobilization, have been pressing the industry to increase its potential to meet the needs of a national emergency, present capacity is already turning out more supplies of all kinds of petroleum products than the consumer market can absorb. By January, inventories were at an all-time high, and only the severely cold days during January and February have reduced heating fuel oil stocks. Gasoline inventories in particular, which represent about half of the refined product from crude oil,

have never been larger, and keep growing daily. Nor will there be any relief in sight until the warm weather once again sends millions of motorists swarming over our highways.

It would seem, then, that if the principle of supply and demand were operative, the price of petroleum products, particularly gasoline, should take a considerable dip. This has not been the case. The application of this economic law can never be that direct, especially in an industry whose products are in fluctuating demand and whose capital investment in plant is enormous. Add to this the conflicting interests of strictly do-

mestic producers and those who have substantial holdings in other oil producing areas of the world, mix in the apparent contradiction between the desires of the defense planners who continue to call for increased potential and those of the conservationists who daily warn us of the imminent depletion of our petroleum resources—take all these into account and you have some measure of the difficulties confronting the industry today.

Perhaps the whole problem has a beginning in the fact that when you need petroleum, you usually need a lot of it, and you need it badly. And when you don't need it, you don't need it at all. Tomorrow's requirements might have little bearing on the amount of petroleum that can be used today; yet, the stuff must be available when needed. Petroleum products are that kind of commodity.

Petroleum is Big Business; it cannot afford to take big losses merely to clear out inventories. If a barrel of oil costs a certain amount to produce today, the price of that barrel of oil tends to remain fairly stable in relation to the original cost whether the oil is sold today or tomorrow. It has to, if the petroleum industry wants to stay in business and continue producing petroleum. In any event, lower prices would not necessarily increase consumption enough to absorb the oversupply.

The present situation of the industry is further aggravated by an intramural struggle which threatens to break as a public and political problem. Domestic oil producers, less able to cope with the fluctuating market, not in a secure enough position to hold unsold stocks above ground and yet deeply involved with heavy investments, and being further pinched by state regulated cut-backs of crude oil, have become loud in their insistence that their plight be eased. Traditionally, oilmen strenuously oppose any kind of federal intervention for fear that once the foot is in the door, it never again will be forced outside the business threshold. But the seriousness with which domestic producers view their situation is illustrated by their threats that either the big companies with international holdings "voluntarily" curtail imports or Congressional help will be sought.

BUT THE major American oil companies minimize the overproduction problem. They claim that the present large inventories are due to warm weather and a slight business decline; that crude oil cut-backs are from abnormally high levels. They point to the new high in drilling activity and claim that this is necessary because the overall upswing in demand has not ceased, but only slowed down from

This one industry employs some 1,800,000 people and sustains an additional 4 or 5 million more. All told, it represents a capital investment of more than 20 billion dollars. Its annual revenue yield to all levels of government exceeds 2 billion 300 million dollars.

an average annual rise of 6 percent to 4 percent. The oil market will continue to grow, contend the big companies, and there is plenty of room to expand both domestic and foreign output. From a security point of view they favor maintaining imports so as not to deplete our own crude resources.

THESE ARE some of the elements of the problem, the outcome of which must affect us all. For who does not drive a car, use heating and lubricating oils, pay taxes that build asphalt roads, or buy a myriad of household products which use petroleum in some form?

In just seventy-five years the petroleum industry has risen to commanding importance in national and world economic affairs. In 1900 solid fuels supplied 89 percent of our national energy. Today petroleum has taken the lead, supplying 61.9 percent of the national energy and 56 percent of our horsepower.

The tremendous growth of the oil industry is interlocked with the development of the internal combustion engine and the subsequent

network of highways and roads. Mechanization and mass production both resulted from and increased the demand for oil products. The quick growth of the airplane further stimulated oil production. By 1952 there were some four million tractors, over 240 thousand buses, and more than 43.5 million autos in the U. S. Of the 2.3 billion barrels of crude oil produced, 1.2 billion were refined into gasoline.

PERHAPS the tremendous impact that oil has made on our modern way of life may be better understood when it is compared with our population rise and the growth of the total Gross National Product. In the past thirty years, population has increased 43 percent and the GNP by 150 percent. Domestic crude oil production, on the other hand, rose by an astounding 225 percent—five times greater than the population growth and almost one and one-half times greater than the growth in the general GNP.

This huge consumption of oil has raised cries in some quarters that our reserves are being pumped dry. But the discovery of new wells more than makes up for the 2.3 billion barrels taken from the fields each year. In 1952 some 46,000 new wells were drilled; and in 1953 more than 49,500. Though a third or more of new wells usually prove unproductive, nevertheless our oil

reserves keep increasing. The total annual cost of new drilling exceeds one billion dollars. New technological developments continue to increase both oil recovery and proved reserves. At present, known reserves of crude oil and natural gas-fluids in the United States are estimated at almost 33 billion barrels; the rest of the world is known to have some 74 billion barrels—52 billion in the Middle East.

THE GIANTS of the industry operate in more than one segment of this many-faceted business. The ten largest companies control just under 50 percent of all refining capacity. And these companies are also in crude oil production, transportation and marketing. These are the companies, too, which are the importers and exporters. Their gigantic financial strength and diversity make them less vulnerable to market fluctuations. That they are the stabilizing factor in an industry whose ramifications directly affect our general economic business life cannot be doubted. That a large company can operate more efficiently, prepare better for the future, absorb the shocks of a depressed market, maintain the long view and plan for secure self-perpetuation are the advantages enjoyed by a big business. In times of stress, these advantages militate against the smaller operator who is subject to immediate mar-

At present crude oil is consumed as follows: gasoline, 40-60 percent; fuel oils about 35 percent; lubricants, 3 percent; and miscellaneous products about 8 percent.

ket conditions. The petroleum industry undoubtedly can weather business storms, but the individual small operator may not. So he cries for help.

These swirling differences within the industry are concurrent with the outer one of the battles of fuels—the competitive fight of petroleum with coal and natural gas. Fuel oils have come into wide use by power plants in factories, steel mills and electric power stations; oil has replaced coal in ships, railroads and homes. Then natural gas entered the market, and more recently liquified petroleum-gases have become a strong competitor for home use. Thus the battle for consumers is not only with other energy products but within petroleum itself, among its own divisions, for both natural gas and liquified petroleum-gas are by-products of the search for oil.

TO MAINTAIN and improve their respective positions, the oil companies spend well over 100 million dollars yearly on research. New techniques are constantly being introduced to reduce costs, to beat competition from within and with-

out, to improve quality and increase demand. Innovation continues as the true source of profits, which explains why the rate at which machinery becomes obsolete is so high. The application of science to the quest for oil, control of its chemical contents, and uses to which its numerous goods could be put has consistently reduced waste to the point where it is almost nil.

This is the age of mechanization and petroleum. The scope of the petroleum industry has become so vast, so rooted in and intertwined with our economy that its vibrations are felt in our over-all business life. Nor has it yet achieved full, mature stature. It is anticipated that the next twenty-five years will see a consumption growth from the present 7.3 million barrels daily to thirteen million barrels, with the rest of the world consuming an equal amount, an increase from the present five million daily. This prognostication augurs well for the general future of petroleum.

But the domestic producers are harried by the spectre of the immediate shrunken demand. Their expansion plans are in jeopardy. Capital must be expended from two to six years ahead of actual production. Profits from current receipts provide the capital investment for tomorrow. Drilling a new well can cost anywhere from fifty thousand to a million dollars, and

there is no way to know in advance how deep a well must go or what hazards of rock layers may break tools or cause cave-ins, thus piling up unforeseen expenses.

Without immediate returns, programs already underway could become total losses. Meanwhile, a million fewer cars than last year are planned for 1954, forecasting a reduced rate of growth in gasoline consumption. In the last five months of 1953 the big oil producing states of Texas, Oklahoma, Louisiana and Kansas constantly reduced the allowable crude oil that could be taken from the ground. This was an attempt to neutralize the oversupply. Revenue losses to these states have been enormous. Texas, for instance, which averages eleven cents per barrel, has suffered a loss of about 45,000 dollars per day.

AN ADDITIONAL aggravation to domestic producers is the administration's efforts to help solve Iran's difficulties. When Iranian oil ceased to flow into world markets, the gap was filled by the rest of the world's oil producers. The prospect of resumed Iranian oil output, in an already oversupplied world market, has domestic producers openly grumbling for import restrictions. Yet our international policy requires us to help Iran find a market if she is to dig herself out of her financial pit. Unless the free world

buys it, this oil will go behind the Iron Curtain.

Whatever decision is made, the oil situation is fraught with dangers. In a world where tensions do not ease, varying only between hot and cold war status, national security is the first consideration. But a weakened economy can make a potential enemy bolder, and no matter what terminology is used, it is generally agreed that 1954 will not be as economically active as 1953. A constricted oil market means a reduced demand by the petroleum industry for steel; and a smaller auto output means a reduction from past rates of growth in demand for both steel and oil. These three business giants set the pace and affect the state of health of the economy in general.

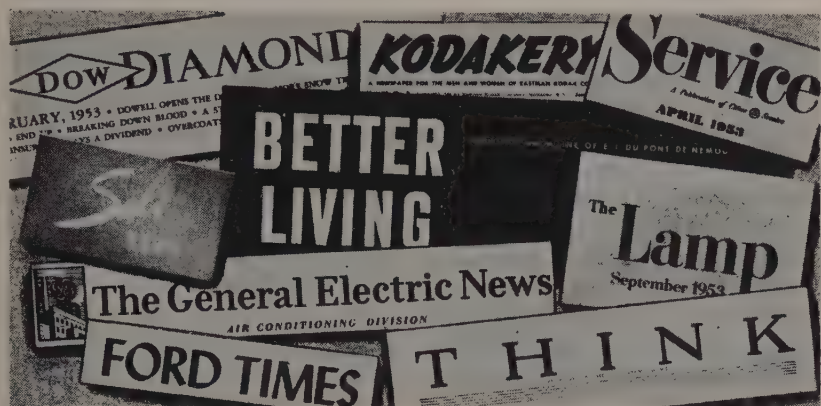
AS TO THE situation of the petroleum industry in particular, it can be said without too much fear of contradiction that this is not the first time production has exceeded consumption. The expectation of future rates of consumption has always set the pace of the petroleum industry. To supply the expected long-range consumption increase, the industry plans to spend some five billion dollars annually for the next fifteen years. This capital investment must be supported by the price structure of present consumption levels—even if this period of overproduction should extend it-

self throughout 1954. In fact, if the market for petroleum products remains sluggish, the price of such products might very well rise in apparent contradiction to the law of supply and demand.

A STANDARD OIL executive recently stated that the margin of production over current consumption is about one million barrels per day. This situation is not viewed with alarm by larger units of the industry. No one questions the fact that the need for oil will steadily rise as industrialization and mechanization become even more widespread throughout the world. The oil optimists foresee petroleum fulfilling this increased need. But despite this bright long-range outlook, the immediate view looks on a gloomy picture. That a protraction of present unfavorable conditions will greatly affect the present structure of the industry there is no doubt. Both large and small and domestic and international producers are daily considering such possibilities.

To these problems of long- and short-range import we can add one other. Just as oil superseded coal as the chief source of fuel, can atomic power in turn replace petroleum? How the industry plans to cope with this distant shadow already cast upon its business horizon will probably be the next major problem on the agenda. ■

To what degree are house organs the creatures of management, and how much of a legitimate journalistic function do they serve?



The 'Kept' Press?

by Thomas E. Hewitt

A FRIEND of mine refers to the people who edit house organs as "the ladies and gentlemen of the kept press." This, in my estimation, is a most unfair insinuation.

He would have us believe that there is something sinister about this comparatively new journalistic field. He implies that industrial editors prostitute their talents for profit and distort the truth in behalf of their employers.

On the contrary, I feel that most practitioners of the industrial editing craft are as loyal to the truth

and fair play as are their brothers of the public press. They are responsible to their management just as the newspaper editor is responsible to his publisher. And they are at least as dedicated to the interests of their reading public.

Conceived as an office and shop gossip sheet not too many years ago, the house organ achieved its greatest growth during World War II. Cost-plus contracts and excess-profits taxes proved a stimulant to the founding of thousands of employee publications. However, employers weren't motivated exclusively by the easy financing. They saw in these publications a potent means of communication with em-

Thomas E. Hewitt is a working house organ editor, having charge of six monthly employee publications of the Electro Metallurgical Co.

ployees, an instrument for building morale and for giving recognition to individuals.

The growth of house organs did not stop with the close of World War II. *Printers' Ink Directory of House Organs* reported in its 1950 edition that the number of listings had increased from 5,100 in its 1944 edition to 5,300 in its 1947 edition. In 1950, listings jumped by another 252. Management was rapidly learning that there is no substitute in a large corporation for a publication of some kind—a publication that can be used both to instruct and to inform.

THE MODERN house organ is indeed a far cry from the originals in the field. From the mimeographed sheet of twenty to thirty years ago has evolved the picture magazine, which may be printed in four colors, and the tabloid newspaper, styled in appearance after big city dailies such as the New York *Daily News*. Along with the chit-chat and personals of an earlier day, the modern house organ prints picture stories a la *Life*, and human interest features that would gladden the heart of any circulation-minded daily newspaper managing editor.

There are now probably over seven thousand publications in the field with a total circulation approaching fifty million. Readership figures are at best merely guesses

because there is no sure way of determining how many people read the publications after employees take them home.

If laid out with the other periodicals on the corner newsstand, Du Pont's *Better Living* is practically indistinguishable from *Life*, Chesapeake and Ohio's *Tracks* looks very much like *CHALLENGE*, and Western Electric's *We* could pass at a glance for *Vogue*. House organs have copied very closely the style and format of commercial magazines and newspapers. The best of the crop does not suffer from comparison with the top national periodicals in any respect—layout, photography or editorial quality.

Indeed, the house organ—be it an internal (for employees only), an external (for customers only), or a combination of the two—is becoming a journalistic species of some consequence. But I must interpose here that it has by no means attained maturity.

THE FUTURE of the house organ should be as much better than the present as the present is better than the past.

The improvement will come slowly as management and the editors together grasp the essentials of their task. Most house organs have been guilty of glossing-over or sidestepping the issues that have the greatest significance.

They have avoided talking frankly about the structure of their corporations, and the strengths and weaknesses of them in relation to competitors. They have steered away from labor relations and the labor union. And they have ducked the whole broad subject of depression and unemployment.

Generally house organs have failed to:

- 1) Humanize the management.
- 2) Answer gripes and dispel rumors.
- 3) Face up to problems of mutual importance to the management and employees—such as costs, loafing on the job and air and water pollution.

They have complained *too much* about high taxes and Government spending and bureaucracy. They have talked excessively about free enterprise and the indefinable American way of life.

In broad terms, the house organ sounds too much as if it has been produced in an ivory tower. Everything is rosy. There is no such thing as man's inhumanity to man.

In its sweeping indictment of communication as practiced by business, *Fortune* magazine said back in September 1950 that the free enterprise campaign "is not worth a damn." It stated that "in-

dustry's 6,000-odd house organs" are burdened with too many "Messages from the President."

The criticism is probably richly deserved. But the critics have lost sight of the fact that house organs are still very young, practically in the embryonic stage as compared to other media of communication.

If there is a house organ in the country fifty years old, I have not heard of it. The editors and the management-publishers of house organs have not yet had sufficient time to develop a sound code of ethics and operating principles—a tested formula for success.

After all, the public press has been at it for nearly five hundred years—at least since Johann Gutenberg invented printing from movable type at Mainz, Germany, back in 1450.

Today, it seems to me, house organ editors are not so much "the ladies and gentlemen of the kept press" as they are pioneers in a challenging new form of journalism. Their job: to maximize understanding, agreement and cooperation among management and employees, and, as far as possible, to engender a spirit of discussion on the basis of good will whenever the inevitable disagreements do arise. ■

Postal Productivity

Postal employment continues to move higher. Since 1938, volume of mail handled has increased 92 percent while employment is up 59 percent. On balance, 20 percent more mail per employee is being handled.

The feature of safety, which brought checks into common use, is being jeopardized by the ever-increasing numbers of raisers, forgers and counterfeiters who practice "white-collar larceny"

CHECK YOURSELF!

BE CAREFUL! That check you wrote so indifferently yesterday may adversely affect your bank balance tomorrow! The fastest growing crime in the country is check fraud which steals from the American public more than 400 million dollars a year, a sum greater than the annual loss by fire.

More than sixty million checks are cashed in this country every banking day of the year. For every dollar in cash handled, 150 dollars in checks are written. Yet, the very feature of safety which brought checks into common use is being jeopardized by the ever-increasing numbers of raisers, forgers and counterfeiters who are thus attracted to "white-collar larceny." The number of personally written checks that turn up in the subtle hands of "check artists" increases proportionately with their use.

Since World War II, checking accounts have become commonplace. Banks have made a concerted drive to increase their use, and various types of accounts have been made available to meet the needs of depositors of every income level.

As a result, four times as many checks are written today as in 1939. According to F.B.I. reports, some fifteen thousand check frauds are committed each year, involving counterfeiting and check raising. The swindlers prey on big business, small business and personal accounts; in other words, any kind of check they can get their deft hands on will do.

Small business and personal checks are most frequently involved in frauds simply because they seem to warrant less scrutiny than big business checks or checks drawn for large amounts. An important factor, too, is that 90 percent of large companies already have taken protective measures through the use of modern devices which make it virtually impossible to alter a check without detection. Only 15 percent of small companies have as yet taken advantage of such check protection aids.

THE RESPONSIBILITY for loss, in most instances, must be borne by the writer of the check, not the bank which cashes a fraudulently

raised check. The courts have ruled that "the bank can only be held to a knowledge of the signature of its depositors. By accepting and paying the check, it only vouched for the genuineness of the signature, and cannot be held to a knowledge of any other part thereof."

Even the loss involved in instances where a *certified* check has been raised must be borne by the signator. A New York State Court of Appeals decision states that "Even the certification of a raised check in no way makes the bank liable for its (the check's) genuineness, because a bank is only bound to know the signature of its customers and the amounts they have on deposit." It is generally accepted that the signator assumes responsibility "by so carelessly writing the check as to render it easily open to material alteration without leaving evident traces for detection. . . ." Therefore, having furnished the opportunity for a fraud which deceives the bank, the writer must bear the loss himself.

THE SIX most popular methods practiced by check fraud crooks are: altering the name of the payee; raising the amount; altering the date (particularly of lost or stopped checks); forging signatures; counterfeiting existing checks; and concocting fictitious checks.

The most widely practiced and

most lucrative method, to the swindler, is to raise the amount of payment. It is relatively simple to raise a six-dollar check to sixty dollars, or twenty-five dollars to seventy-five dollars when a check is written by hand. Even more complicated numerals are fairly easy to the practiced forger. There is an example on record of a check that was raised from twenty-seven dollars to twenty-seven thousand dollars. It ruined the career, family and life of the signer because he was suspected of having done it himself. It took years to prove his innocence, by which time the costly damage was irreparable.

Check crooks will steal cancelled checks and bank statements to learn the status of the account and to study check-writing habits and signatures. Even blank personal checks are purloined, along with other personal identification as a means of cashing fraudulent checks. Changing the name of the payee on checks stolen for this purpose is easy. For example, Morgan Barber Co. became Morgan Barberes Cole, a given name. And the check was easily cashed, especially since it was backed by identification of a fishing license and credit card taken out by the crook in that name. One such swindler, an arthritic cripple who could hardly write, stole piles of mail stacked outside the already full mailboxes in the lobby of office

buildings. From these he extracted the checks, altered the names of the payees and cashed almost twenty-five thousand dollars' worth before he was caught. He even cashed three different checks in the same bank on the same day by presenting acceptable identification.

NOT ONLY are original checks counterfeited, but some crooks make their own checks payable at non-existent banks, or in the names of non-existent firms. A Memphis department store accepted a check drawn on "The East Bank of the Mississippi." Some forgers are so adept that experts find great difficulty identifying the forgery. In one such case, government agents refused to exhibit the real and forged signatures in court lest the jurors be confused.

One forger did not steal checks; he stole bills. Then he made out fraudulent checks to pay them. The checks were always in excess of the amount of the bill, and he lived well off the difference he collected. Using large checks to pay small bills is a common practice.

Forgery is not a new crime. It was one of the great perils of early banking. In England during the early 19th Century, the penalty for forgery was death by hanging. In 1817, the Bank of England prosecuted 142 forgers, and despite the severe penalty the incidence of this crime increased.

The very earliest checks on record were the most foolproof. They were clay tablets used in ancient Egypt as a medium of money exchange. The merchants of the 14th Century used bills of exchange to avoid the hazards of transporting gold. The word "check" itself seems to relate to the serial numbers used as a check or means of verification of these early bills of exchange.

By 1880 the use of checks was sufficiently widespread to attract organized criminals. The opportunities in this field of devious endeavor eliminated the physical risks of burglary or armed robbery. Gangs of skilled forgers operated with such nationwide success that the entire check system was almost threatened. The opportunities were limitless, the stakes high and the ingenuity displayed amazing. Check raising gangs employed departmentalized production methods. "Captains" purchased small bank drafts, then "scratchers" raised the amounts; "middlemen" who often did not know other gang members passed them to "presenters" who brazenly cashed them in banks.

ONE OF the leading "check artists" of all time was Alonzo James Whiteman, known as Jim the Penman in his heyday at the turn of the century and described by the Pinkerton Detective Agency as "beyond all doubt the ablest crim-

inal in the U. S." This astute forger went through an inherited fortune, served as a state senator, and received an honorary degree from a reputable college. His swindles netted him more than a million dollars. When a New York bank sued him for a mere 580-dollar haul, he sued the bank for false arrest and collected three thousand dollars. Arrested forty-three times, indicted twenty-seven times, convicted and sentenced eleven times, he spent only twelve months in jail. At Auburn prison he taught in the prison school—until it was discovered he was teaching forgery.

PROTECTION against the numerous check abuses have been developed and are available at nominal costs. There are mechanical check writers that instantly reveal any tampering with amounts, signatures or payee names. Special papers for checks are manufactured that make visible the word VOID when erasures are attempted. Sums and names can be imprinted on checks in such a manner that the paper is perforated, thus allowing the ink to penetrate the paper and assuring detection of any alterations. One company which manufactures a check-writing machine backs its product with a ten-thousand-dollar two-year indemnity bond covering check alterations and forgery. Another company makes a high-speed check-writing

machine that also does ledger posting, card punching, computing and tabulating.

PERFECT protection depends, basically, upon the care exercised by check users. George W. Adlam, veteran check detective, advises these precautions be followed: blank checks and check-writing equipment should be kept under lock and key; spoiled checks should be destroyed immediately; blank checks should never be signed; bank statements and cancelled checks should always be put away. If a check-writing machine is not used, write in ink, never in pencil, and begin at the extreme left of the amount lines, leaving as little space between numerals and written figures as possible; fill in blank spaces by drawing firm lines through them. Simple writing and signatures are more difficult to forge than fancy or complicated ones. Checks to "Bearer" or "Cash" are dangerous; checks received should immediately be endorsed *For Deposit Only*. Cashing checks for strangers, regardless of identification, accepting checks that show signs of alteration, checks not endorsed in your presence or in excess of the amount of payment, out-of-town checks—all represent potential losses.

Checks are not mere representations of money. They *are* money and should be handled as carefully. ■

From the Rostrum

Excerpted from a recent address by Mr. Greenewalt before the Commonwealth Club of California meeting in San Francisco, Calif.

by Crawford H. Greenewalt



Let's Take the Long View

The progress chart of an economy is best read by examining the total course rather than the day-to-day turn of events

IDON'T suppose there is any question being asked more frequently these days than "How good or bad is business going to be in 1954?" Will it be up or will it be down, and if it is down will we be in a recession or merely a readjustment? When I am asked that question, it causes me deep embarrassment. If I tell the truth and say I don't know, people think I am an ignorant fellow. If I close my eyes and say up five percent or down ten percent, according to my mood at the time, I am violating a cardinal principle of my scientific training which is to be both objective and honest.

I must say I admire greatly the courage of the economist who re-

tires into his kitchen and compounds a witches' brew made up of such items as personal income, inventories, construction, farm prices, government spending and the money supply, and comes out with the statement that the production index in the third quarter of 1954 is going to be 127, no more, no less. Maybe he will be right, but the odds are much better that he will be wrong.

We have also the rather grim technique of those who have said in every year since World War II that the next year will see business falling off. Perhaps we should ad-

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mire their persistence, but it is only fair to point out that, like the man who calls heads every time a coin is flipped, sooner or later they will be right. It may even be that they will be right in 1954.

OF ONE thing we can be sure, and that is that our economy does not ride along in a straight line. Like any countryside it has its hills and dales, its ups and downs. It would be far more constructive if, instead of trying to predict the precise shape of the hill or valley in the year ahead, business people would find ways to minimize these inevitable ups and downs so as to remove from the horizon both the high peaks of 1929 or the deep canyons of the early thirties.

A few centuries ago, people had few luxuries and their preoccupation was mainly with keeping themselves fed, clothed and sheltered. In those days, I suppose depressions were influenced more by the weather and its effect on agriculture than by any other single factor.

In modern times, however, the causes of recession are much more nebulous, since they depend not upon natural phenomena but upon human decision. Whether or not we will have a recession in 1954 will depend largely upon the direction of the national psychology and on decisions that are influenced less by rational economic reasoning than

by simple confidence and optimism. Obviously this involves great numbers of people, and the governing decisions will be made not only in business offices and board rooms but around the dining room table in millions of American homes. What we call "buying power" is in this country no arbitrary factor. For most of the things people buy are deferable. If people in the mass as consumers and as businessmen feel that they wish to defer a large percentage of their normal purchases, we will surely have a recession. If they are confident, willing and able to satisfy their desires, we will have a boom. In short, if we could find some way of climbing into the minds of 160 million people, we could tell very easily how good or bad business is going to be.

No one has yet learned how to measure or how to influence people's confidence. A few things we do know. We know, for example, that a depression, once started, accumulates momentum like a snowball rolling down a hill, and that panic is a communicable disease far worse and far more rapid in its spread than any that affect us physically.

It follows then that the business community must accept major responsibility for seeing that panic does not start. That it can do by maintaining its confidence high and its economic temperature as

near normal as possible. In this atmosphere, the corrections that will be applied will be small and not in themselves frightening.

But above all else, industry must keep its eye firmly fixed upon the long-term upward trend—the amazing and dynamic industrial progress shown in this country over many years. For in the last analysis it is that upward thrust in inventiveness and productivity that is the sure and tested tool that puts an end to any depression whether it is major or minor.

Let me cite an example. The Du Pont Company recently celebrated its 150th birthday. I take great pride in that circumstance but that is not why I mention it here. I mention it because our business is one of the very few that has the perspective of many years of successful operation. The first available Du Pont balance sheet is for the year 1810 and in that year our assets totaled 109 thousand dollars. A hundred years later in 1910, they were 81 million dollars; and today, excluding our investment in the General Motors Corporation, they are approximately two billion dollars.

If we translate those figures into growth rates, we find that both in the first one hundred years and the last fifty our rate of growth has been about seven percent per year compounded. The point of all this history is not to boast about

the Du Pont Company's success. It is simply to remind you that in that 150-year period we had five major wars, at least six depressions of very substantial magnitude, and all conceivable shades of political climate and opinion—and Du Pont is still here and still growing.

THE POINT I wish to make here is that when events are viewed against the pattern of our country's steady long-term growth and prosperity, the bad times, so troublesome in their particular setting, fade first into unpleasant memories, and finally to unimportant historical items in dusty and forgotten archives.

It is also interesting to note that when anyone in the past has attempted to predict the long-term future, his forecast has turned out to be hopelessly shortsighted and pessimistic. Benjamin Franklin, for example, thought at the end of his life that it would perhaps take centuries to settle the American continent. The State of California stands as a monument to his error. Thomas Jefferson in announcing the Louisiana Purchase felt that the territory might be fully occupied after twenty-five generations. The railroad and the steamboat opened it up to settlement within a few decades. In the early 1900s a gentleman from Philadelphia grew enthusiastic about private motor cars and foresaw the time

when there would be a hundred or so in every city. I might add that he viewed this development as a boon to highway safety as it would free the country from drunken riders and wild horses. A British socialist during the nineteenth century foresaw the period when it would be unnecessary for children to work more than ten hours a day.

The economist Jevons, in 1860, was alarmed at the possible exhaustion of the earth's coal supply within a few years. I have heard similar predictions on petroleum almost yearly since my college days. Sir William Crookes, a distinguished scientist, saw early starvation of the race through diminishing supplies of nitrogen. What he did not foresee was that chemistry through nitrogen fixation would in a generation prove his error.

I COULD go on with similar examples, but it should be evident that the progress of genius and inventiveness is something that is always underrated. I think, therefore, that those who become unduly alarmed at our short-term prospects are guilty simply of economic myopia. They forget that our economic orbit is shaped not by inventories, government spending, or any of the host of business indicators, but by human courage, desires and incentive.

There has been much speculation as to the reasons for this spectacu-

lar advance of our American economy. Some have ascribed it to the size of our continent, some to our raw material resources, some to the strength and vigor of our people. To me the answer is a simple one. It is nothing more than human ingenuity operating in an atmosphere of individual freedom and incentive.

Genius and inventiveness are found among the people of every nation. They are not an American monopoly. But the atmosphere of freedom in which we Americans live and work is unique among nations. It is in itself a creation of man's genius, an experiment born of dissatisfaction with the authority of the state, the guilds, a rigid social order and all of the confining trappings of eighteenth century Europe. Our experiment in Government has succeeded beyond the fondest expectations of its founders, for not even they could foresee the effects of man's daring, vision and creativeness set free to operate without let or hindrance.

THE DIRECTION of our effort has changed over these two centuries of our national existence. Our first hundred years were the years of the pioneer, the explorer, setting out from the comfort of the East to conquer and settle the unknown West, to bring our continent under the plow and to create an agricul-

tural abundance for our growing population.

In recent times we have become an industrial, not an agricultural nation, and it is our factories and our industries to which we look for the ever more abundant life each one of us seeks.

The twentieth century pioneer has turned from land and mine to the much more challenging exploration of the physical sciences. Our frontiers have moved from the West into the research laboratory and in that move have become frontiers without limit.

There is no essential difference between the explorers and homesteaders of the past and the scientific pioneers of the present. Both require faith in their objective, confidence in the future, and the knowledge that the rewards of success are there to be reaped and kept if success attends their efforts.

LET ME again quote a few figures from the Du Pont Company's experience. In the past twenty-five years the Du Pont Company has spent about three dollars in productive facilities for every dollar spent in the research laboratory. And this ratio of three to one has been relatively constant over an even longer period during which our annual research bill has grown from one million to fifty million dollars. During this same twenty-five years our employment has in-

creased from thirty-eight thousand to ninety thousand. That growth in employment is the net of the jobs created through the introduction of new products less those lost through increased productivity. Obviously the leverage of research in making new employment opportunities is enormous.

AND THAT is by no means the end. For many more employment opportunities have come about elsewhere as a result of our research activities. A new material, such as nylon or cellophane, becomes the basis for increased business activity on the part of those who fabricate and sell the finished products arising out of the new basic materials which only a large business can supply. How large a circle this becomes would vary, and its radius is hard to compute, but as an example, we have estimated that for every one of our five thousand employees making cellophane, there are two workers engaged in its conversion and distribution, whose jobs were created as a direct consequence of the development of cellophane.

I cite the Du Pont Company's figures only by way of example, for while our present fifty-million-dollar annual research bill is large in the absolute, it is a very small fraction indeed of the industrial research that is being done in the country's industries.

There has been some talk in past years of the possibility that our economy is maturing, that we are reaching an industrial plateau from which we will progress only as our population increases. That point of view seems to me to be nonsense. For it is tantamount to saying that the last scientific barrier has been crossed, that there is no fruitful objective for further research, and that man's appetite for a more abundant life has been fulfilled.

On the contrary, in the fifty years or so during which we have practiced applied science, it seems to me we have made only the smallest of forward strides, and the horizons before us are unlimited and extend far beyond our present vision.

It is essential as we make our way through the squalls and alarms of 1954 that we keep our eye on the main goal, which is the continuation of our progress to greater productivity, to greater abundance, to new products for the betterment and simplification of our lives.

I do not think this requires us to forsake the search for what we call security. It does require us to know precisely what we mean when we define security as our goal.

In the early days of the last

century, there was a kind of security in the well-established settlements of our eastern seacoast. The pioneers who journeyed westward across harsh and inhospitable country were not unmindful of the blessings and comforts they had left behind. But they perceived that, in the long view, a greater security was to be found in the enterprise that led them west. And today, in accepting the risks and hazards implicit in industrial progress, we reach for the only real security—the abundance that enterprise will bring.

We must not accept a definition of security that merely preserves the status quo, for that will lead to stagnation and something like the dark ages of medieval history—that, you will recall, was a depression that lasted more than eight hundred years.

If we are to avoid it, we must most of all keep alive that spirit of confidence and optimistic venture that has been so fruitful in the past. We must remember that America was built by people who wore rose-colored glasses. For them and for us the air is clear, the sunshine is bright, and the horizons present exciting vistas. ■

A Lot of Rivets

The 179 thousand rivets used in the construction of a modern jet fighter plane would tower two and a half times as high as the Empire State Building if placed on top of each other. —*Science News Letter*

From the Bookshelf

THE DYNAMICS OF SOVIET SOCIETY, by W. W. Rostow, in collaboration with Alfred Levin, and with the assistance of others at the Center for International Studies, Massachusetts Institute of Technology. W. W. Norton & Company, Inc., New York. \$3.95.



Soviet Society Today

An unusually realistic view of Russian domestic policy, with sharp emphasis on the principle of "priority of power"

by Frederick C. Barghoorn

THE CONSIDERABLE investment of money and personnel in studies of Soviet Russia in post-war America is beginning to bear fruit. Works such as W. W. Rostow's book, *The Dynamics of Soviet Society*, give proof of this. The author takes an unusually realistic view of Soviet politics. Probably no other book which has attempted to survey the whole field of Soviet domestic policy emphasizes so sharply what he calls the "priority of power."

Prof. Rostow has, in the main, compiled a wide range of data and applied it rigorously to a point of view long held by Western officials who have had to deal in practical matters with the Soviets. This is,

briefly, that the Soviet regime is a power state *par excellence*. Its actions are not determined by ideology; nor do they reflect traditional Russian imperialism or the peculiarities of the Russian national character.

Rather, as Prof. Rostow puts it, Soviet society represents "a projection out onto an entire state and its people of the form and concepts of organization created largely by Lenin for the operation of the Communist party itself."

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The author shows how Lenin's interpretation, perhaps perversion, of Marxism led, under Russian conditions, to the development of a mechanism which converted human and material resources, sentiments and ideals into increments of power for the Bolshevik organization. Means swallowed up ends, and even the supreme rulers became instruments. The Bolsheviks proved willing and able to use to the full all possible means to increase the power of the regime, regardless of costs or consequences.

Under Stalin, whose career had a "massive consistency," the modern totalitarian state took shape. The instruments of power were first "bureaucratized." Then came the turn of social organization and of intellectual and cultural life. Literature was turned into propaganda, and musicians were put to work composing tunes that the people could hum.

It is surprising that Rostow, an economist, would devote less than ten pages to the topic of "Soviet Power and the Economy." Yet in this space he gives three major links between the power-conscious policy of the regime and its historical economic decisions:

"First, a minimum level of economic welfare was required to prevent starvation, preserve the efficiency of the working force, and even, perhaps to avoid insurrection

born of simple desperation. At each period, then, the regime has been forced . . . to undertake arrangements for achieving a level of output and consumption which would provide a basic foundation for its continued rule . . .

"Second, the structure of the economy (e.g., its industrial-agricultural balance) and its form of organization (e.g., private vs. public) had social and political consequences on which hinged in part the degree of effective power the regime could exercise over the society . . . Socialism commended itself as a means of administration which contributed to the centralization of political power in the hands of the regime.

"Third, the strength of the regime *vis-a-vis* the external world was believed by Stalin to hinge largely on its military strength in being and, in the long run, on its heavy-industry base." Thus followed "a sustained emphasis on the creation of basic capital resources" with a de-emphasis on food and clothing and personal conveniences.

The growth of Russian economic power under these decisions, whether one views it as a blessing or a curse to the world, is certainly a fact. It is true that the Soviet economy is lopsided, with many an operator of glistening modern machinery having but one crumbling pair of shoes to his name. But there is virtual unanimity among

competent Western students of the Soviet economic system that the rate of economic growth is faster than that even of the United States. The Russians have built, from a technical point of view, an immense machine for generating power. Its productive capacity has tremendous potential. This fact should have been brought out more clearly and related to other aspects of the "dynamics" of Soviet society.

Rostow helps us to understand to some extent how the regime can so effectively appropriate for its own purposes material and human resources of the Russian and other peoples which it rules.

"Broadly speaking," he says, "the technique of the Soviet state is to offer to each group a pattern of incentives and restraints designed to deny to it any realistic alternative to carrying out the will of the regime . . . On the side of incentives, the Soviet regime provides sufficient real income to maintain life, and, more important, it provides the possibility of a rising scale of real income for those who work harder or who are prepared to accept more responsible tasks on the regime's strict terms.

"A second positive incentive has taken the form of public prestige for efforts believed to be in the interest of the state as a whole. Not only is there the Stakhanovite movement, but also an elaborate

gradation of awards and prizes which has been developed to supplement material incentives with the almost universal desire of men for communal approval . . .

"A third range of incentives to loyalty can be grouped under the general heading of security. This term is designed to embrace not merely the material security (at a low real income level) which the system affords, but certain basic needs of the individual in relation to society which the Soviet system more or less adequately fulfills . . .

"The whole system of Soviet education is designed to accentuate that general quality of men which seeks the security of a communal connection.

"It has been a prominent characteristic of Soviet defectors that, in their process of adjustment to more individualistic societies they have appeared to miss, for a time, the sense of direct connection with society which the Soviet system afforded, even when this aspect of the system was far outweighed in their later evaluation by other faults. Soviet defectors tend to be anti-Communist, but also somewhat anti-individualistic. They do not at first find the notion of a relatively atomistic society quite comprehensible, let alone attractive.

"Finally . . . the regime has permitted and even encouraged the continuance of powerful elements

of nationalism in the society, not only in the form of a xenophobic patriotism, but also in the maintenance of certain lines of cultural continuity with the Russian past...

"While the efforts of the regime to associate itself with nationalist elements of Russian life have by no means been wholly successful, it must be recognized that the regime has acquired a degree of legitimacy in consequence of its material, military, and diplomatic achievements of the past several decades. Defectors who exhibit, in general, a profound hatred for Stalin and his system appear, nevertheless, to reserve a certain grudging respect and national pride for the extent of Russia's successes under Stalin."

ONE OF THE most important points brought out in this book is that implementation of the Lenin-Stalin priority of power policy generated a great deal of hostility between regime and people. To render this hostility as harmless as possible to the state, the all-penetrating police system was set up. This was supplemented by what is usually called the "Iron Curtain." Finally, every effort has been made to divert internal hostility on to foreign scapegoats.

The practical implication of this way of looking at Soviet conditions is that Soviet hostility and aggression are not the product of Western

policies so much as of forces generated within the U.S.S.R. At the same time, the author is careful to point out that in the post-war period a new situation has developed in which the Soviet Union and the United States are in such close contact that the policies of each are bound to be influenced in a large measure by the attitudes and policies of the other giant power.

The price paid for the power generated by the Soviet regime is frightfully high. Rostow's book should be read by all who may be tempted by the illusion that any political goal, whether of a "left" or "right" orientation, is worth the sacrifice of individual rights, balance and common sense. I do not know of a more objective but at the same time more devastating account of the withering of values and the burgeoning of tyranny.

The author shows that there is plenty of dissatisfaction, both general and group dissatisfaction, in the Soviet Union. However, he believes that under conditions of unity at the top neither of these types of dissatisfaction can become politically significant.

His position differs considerably from that of writers such as Eugene Lyons or Boris Shub, who seem to believe that discontent would not only be a potential but an actual present danger to the Soviet regime, provided the Western powers, particularly America, ap-

pealed to the Soviet people over the head of their rulers.

From time to time Rostow expresses guarded optimism over the future development of Soviet society. His main basis for optimism is the possibility that the "higher bureaucracy," the officials just below the top policy-making level, may eventually gain a greater share in making Soviet high policy. Rostow seems to believe that the higher bureaucracy, and particularly the High Command of the Soviet Army, might be more inclined to a policy of "accommodation" to the West than the Stalinist party apparatus men. Another basis of hope, more tenuous than the foregoing, is the conviction that humane values kept alive by artists and writers nurtured on the works of Tolstoi and other Russian classics furnish a kind of spiritual bridge to the West.

LIKE MOST other students of Soviet society, Rostow does not consider that the Soviets are likely to resort to general war. Of course he carefully qualifies his statements on this subject, but he leaves the impression that while the West must be vigilant, a Hitler-type of Blitzkrieg is not likely to be a Soviet policy choice. He seems on the whole to feel that the weakening of the Soviet regime due to Stalin's

death put the brake, for a time, on expansionist tendencies in Soviet policy.

AS I HAVE indicated, I regard this study as a valuable contribution to public knowledge on the Soviet Union. However, I believe certain aspects of the subject are neglected or slighted. It seems to me that economics and geography should have received much more attention.

Another area in which I am inclined to question the author's emphasis is that where he considers the fate of ideology under the power regime. I share his desire to deflate the ideological pretensions of the present-day rulers at the Kremlin. Too many idealists have been taken in by them, and this work performs a valuable service in revealing the nakedness of the Soviet leviathan. But one can, in the process of debunking, erroneously suggest that ideology has played a more important role at one time than it does at present. A closer reading of basic Soviet texts, such as Lenin's works on Party organization, would, I think, reveal that from the *very beginning* Leninism was a system of organization for power. To discard Leninist ideology in order to carry on the pursuit of power has not been as necessary as Rostow seems to think. ■

ECONOMICS IN ACTION

dividend tax relief and easier credit, particularly in such fields as middle and lower-income housing. In this way, the President's economic advisors believe industry will be encouraged to step up production and create more jobs. And more jobs will mean more cash in the pockets of the consumer to spend on the expanded production.

The Democratic opposition, on the other hand, would like to see the government release immediate purchasing power among lower income groups by extending income tax exemptions from \$600 to \$700, and by raising the minimum wage to \$1 an hour. This, they believe, would boost sales of consumer essentials, stimulate production and increase the number of jobs. In the meantime, they would like to see the Government absorb the employment slack by a stepped-up program of public works.

Actually, this difference is largely one of emphasis and timing. The Administration has indicated that it will step in if and when the recession gets out of hand. The Democrats, on the other hand, are willing to go along with tax relief for business as long as the "little man" benefits as well.

The slight business dip has already had important repercussions among our overseas friends:

Foreign investments of U.S. companies amounted to \$16 billion in 1953—a drop of \$600 million in new investments from 1952. If the current business slide continues, moreover, the 14% cut in foreign investment taxes recommended by the Randall Commission will be out of the question. And that means less investments overseas and fewer dollars for our trading partners with which to buy American goods.

ECONOMICS IN ACTION

Russia and her satellites have taken full advantage of this situation by dangling tempting baits of trade before our dollar-hungry allies. Last year they signed new trade agreements with Argentina, Belgium, Greece, France, India, Iran, Israel, Sweden and Italy, and dumped \$150 million worth of gold on Western markets. Even though the Russians are notoriously poor credit risks, countries like England and France, whose economies depend on exports, are already being tempted to relax their trade regulations against the communist bloc.

In this way a serious American recession would reduce overseas markets for our own exports at a time when we would need them most.

The Department of Better Mousetraps: a jet-propelled motor boat...a new type of electronic "brain" deliberately advertised as a "high-grade moron"...vertical blinds which can be opened or closed by remote control...a new paper that provides multiple copies of business forms without the use of carbon paper...dripless wine bottles...a new TV set which should settle a lot of arguments; it lets two people see--and hear--two programs at once...neckties with zippered pockets...a gravy ladle which lets you choose between lean and fat gravy; it can also be used as a flower vase...a transparent space helmet designed to lure small children into taking anesthesia without kicking up a fuss...a light fuse with a neon sign which turns on when the fuse burns out...the first "atomic" battery which converts radioactive waves into electric current...cakes baked in cans...and, finally, the return of the nickel cigar--which, according to the claims of advertisers, is made from "man-made tobacco."